



# **NAVAL POSTGRADUATE SCHOOL**

**MONTEREY, CALIFORNIA**

## **THESIS**

**PANAMA: OWNING THE CANAL**

by

Joanna C. Jackoby

March 2014

Thesis Advisor:  
Second Reader:

Thomas C. Bruneau  
Daniel Moran

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**PANAMA: OWNING THE CANAL**

Joanna C. Jackoby  
Commander, United States Navy  
B.A., Miami University (Oxford, OH), 1991

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**NAVAL POSTGRADUATE SCHOOL  
March 2014**

Author: Joanna C. Jackoby

Approved by: Thomas C. Bruneau  
Thesis Advisor

Daniel Moran  
Second Reader

Mohammed Hafez  
Chair, Department of National Security Affairs

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## **ABSTRACT**

It is rare that Americans wonder about what happened to the Panama Canal after the United States turned it over to Panama in 1999. Since 2000, the Panamanians have been able to transform the canal into a profitable enterprise and successfully revert a good deal of Canal Zone infrastructure to public use through a combination of positive political decision-making, fiscally beneficial economic policies, and constructive management. The United States created the nation of Panama, built and managed the canal, and finally begrudgingly handed over sovereignty. To this extent, Panama's success is our success. Yet there has been surprising little real analysis of the changes in Panama that have resulted from a decade of ownership of the canal and the land surrounding it. It is time to appraise the results so far.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

ACP	Panama Canal Authority
ARI	Interoceanic Region Authority
FDI	foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
HPH	Hutchinson Port Holdings
IMF	International Monetary Fund
PCC	Panama Canal Commission
PPIT	PSA Panama International Terminal
PPP	purchasing power parity
RO-RO	Roll On-Roll Off
TEU	20-foot equivalent unit
UABR	Administrative Unit of Reverted Properties

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## I. INTRODUCTION

### A. PANAMA: OWNING THE CANAL

The history of the Panama Canal tells a story of how the United States created the nation of Panama, built the canal, managed it, and then turned it over to the people of Panama. The story took place over a one hundred-year time span, and there are still those, in America at least, who wonder whether it has had a happy ending or not. At the same time, Panama has faded from the public eye in the United States. It is rare that Americans wonder about what happened to the Panama Canal after “we” left Panama. But since 2000, the Panamanians have been able to turn the canal into a profitable enterprise and successfully plan for reverted Canal Zone lands through a combination of positive political decision-making, fiscally beneficial economic policies and constructive management techniques. The aim of this thesis is to show how this is being accomplished.

Much of the available literature about the Panama Canal at the time of its transfer to Panamanian control culminates in predictions about the challenges Panama would have to overcome in running the canal and managing the surrounding land zone. A characteristic example is Mark Falcoff, *Panama's Canal: What Happens When the United States Gives a Small Country What It Wants*, who proposed that Panama would struggle to manage the vast amount of territory and infrastructure that was being thrust upon it, including over 10 U.S. military bases; and that it was not clear how to turn the canal, a previously non-profit venture, into a profit-generating business to support the Panamanian economy.<sup>1</sup> These challenges appeared to be vindicated by the difficulty the Panamanians experienced in maintaining the Panama Canal Railroad, one of the first assets turned over by the United States, in 1979.<sup>2</sup> That, needless to say, is not the end of the story. Yet, analysis about what happened to the canal after the United States withdrew its troops and handed over control is largely absent from scholarly discourse.

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<sup>1</sup> Mark Falcoff, *Panama's Canal: What Happens When the United States Gives a Small Country What It Wants* (Washington, DC: American Enterprise Institute Press, 1998), 111–112.

<sup>2</sup> *Ibid.*, 101.

This thesis studies how Panama overcame the twin challenges of turning a profit from the canal, and reverting property in the Canal Zone to support a growing economy. The thesis will chronicle the actions and policies that Panama instituted in the Canal Zone to fill the void created by the withdrawal of the United States. The questions addressed are: what happened to those former U.S. military bases and how did Panama turn the canal into a profit-making enterprise? Five democratically elected presidents have held office in Panama since the ousting by the United States of military dictator Manuel Noriega in 1989. Since 1990, the Panamanian presidents have replaced the Panamanian military with a public police force, instituted economic reforms, and depoliticized the management of the canal.<sup>3</sup> There is a huge gap in reviewing the lessons learned of the Panamanians since they have controlled the Panama Canal and adjacent property for over 10 years. What has worked over the last decade to explain their successful management of the Canal? What investments have been made for the future of the Canal Zone? What challenges remain in the Canal Zone? Successes in the Panama Canal Zone can reveal a great deal about what a small country is able to accomplish without interference of a hegemonic big brother.

## **B. IMPORTANCE OF TOPIC**

This topic is important because it illustrates that after 100 years of U.S. control, Panama has been able to find its own way without direct American involvement. Successes in the Canal Zone are successes for the nation of Panama. And success for Panama is success for the United States, in terms of stability in a country that owns and maintains a global asset that is important to both the United States' and the world's economies. It could be argued that the United States has been pleased with Panama's progress over the last decade and has appreciated that it has not had to interfere anymore in the Central American country. The United States still characterizes the U.S.-Panamanian relationship as close, primarily consisting of "extensive counter-narcotics cooperation; support to promote Panama's economic, political, and social development; and a bilateral free trade agreement (FTA) that entered into force at the end of October

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<sup>3</sup> Mark P. Sullivan, *Panama: Political and Economic Conditions and Relations*, CRS Report RL 30981 (Washington, DC: Congressional Research Service, 2012), 3–4.

2012.”<sup>4</sup> A weak or failing Panama, or mismanagement of the Panama Canal, would be unacceptable to the United States, as indicated by the U.S. interpretation of the Canal Treaty of Neutrality. As explained by Falcoff, the U.S. definition of neutrality for the canal meant the United States could appeal to a wide range of options, including the right for unilateral intervention, should anything go wrong.<sup>5</sup> The canal is too important to worldwide maritime trade to allow unrest in Panama, and it would be in the United States’s immediate interest to intervene in Panama to prevent instability.

### C. LITERATURE REVIEW

David McCullough, acclaimed historian and author of the award-winning book *The Path between the Seas*, reveals the intricacies of the political, financial and engineering establishments of early history of securing the authority and building the Panama Canal. Robert C. Harding also presents a thorough timeline of events beginning in 1501 in his *History of Panama*. Both authors provide solid facts about the original ownership of the canal by the French and the ultimately controversial 1903 Hay-Bunau-Varilla Treaty that gave the United States the authority to build and lease the canal “in perpetuity,” almost immediately causing great angst for the Panamanians.<sup>6</sup>

Besides historical review, the remainder of academic literature written about the Panama Canal covers the controversy of turning the canal over to the Panamanians and the foreign policy dilemma created in the United States by the controversy. A detailed review of the political complexities of the canal dispute is provided in Paul B. Ryan’s *The Panama Canal Controversy: U.S. Diplomacy and Defense Interests*.<sup>7</sup> He explains the political developments in the 1970s, as well as President Jimmy Carter’s personal agenda and his relationship with Panamanian dictator Omar Torrijos leading up to the 1977 Panama Canal Treaties.

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<sup>4</sup> Sullivan, *Panama: Political*, Introduction.

<sup>5</sup> Falcoff, *Panama’s Canal*, 17–18.

<sup>6</sup> David McCullough, *Path between the Seas* (New York: Simon & Schuster Paperbacks, 1977); Robert C. Harding, *The History of Panama* (Westport, CT: Greenwood Press, 2006).

<sup>7</sup> Paul B. Ryan, *The Panama Canal Controversy: U.S. Diplomacy and Defense Interests* (Stanford, CA: Hoover Institution Press, 1977), 6–7.

Author G. Russell Evans writes a strongly worded case for the United States to retain rights to the Panama Canal. From his point of view, turning over the canal to Panama would be the first step toward its eventual demise, as implied by his book's title, *Death Knell of the Panama Canal?* Evans alleges that since enactment of the treaty, the Panamanians allowed the canal to slip into disrepair due to lack of maintenance and turned over the port concessions on both ends of the canal to a communist Chinese company.<sup>8</sup> He provides an example of the strongest views against turning over the canal.

Two American authors that seek to present the controversy from a more Panamanian point of the view are Denison Kitchel and Michael L. Conniff. Kitchel's *The Truth About the Panama Canal* shows that the foreign policy dilemma that the United States faced was whether or not to be blackmailed by a small country in Latin America, which could have caused all types of instability in the region if sovereignty over the canal was withheld.<sup>9</sup> In *Panama and the United States: The Forced Alliance*, Conniff provides a well-rounded study of the U.S.-Panamanian relationship from completion of the canal in 1914 through 1999, which he characterizes as a "forced alliance."<sup>10</sup> He contends that while U.S.-Panamanian interconnectedness over the Panama Canal was mutually beneficial for both nations at the onset, he argues that Panama, the weaker partner, was overwhelmingly and unfairly influenced by the United States in the long run.<sup>11</sup> He concludes that the people of Panama were fed up with not having sovereignty over their own territory and that they were being cheated from economic gain by the United States.

By the time the canal finally changed hands, Panamanians, as well as Latinos in general, had come to view the United States as an oppressor. Colombian author Virgilio Araúz expresses this view in *La Lucha por la Soberanía y la política actual de la Autoridad del Canal de Panamá* (The Fight for Sovereignty and the Actual Political

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<sup>8</sup> G. Russell Evans, *Death Knell of the Panama Canal?: The Fate of the 8th Wonder of the World After the United States Relinquishes Control* (Fairfax, VA: National Security Center, 1997), 1.

<sup>9</sup> Denison Kitchel, *The Truth About the Panama Canal* (New Rochelle, NY: Arlington House, 1978), 29–30.

<sup>10</sup> Michael L. Conniff, *Panama and the United States: The Forced Alliance*, 2nd ed. (Athens, GA: University of Georgia Press, 2001), 2.

<sup>11</sup> Conniff, *Panama and the United States*, 2.

Authority of the Panama Canal) that the United States maintained imperialistic governance over Panama under the false pretense of maintaining security for the canal. He asserts the United States deliberately imposed exploitative policies and created crises, such as the ousting of Manuel Noriega, to justify its presence.<sup>12</sup> Other books in Spanish indicate the Panamanians had a plan for the canal, as one could surmise from the title *Visión Nacional sobre el Canal y las Áreas Revertidas* (National Vision about the Canal and its Reverted Areas) written in 1999 by Panamanian history professor Reymundo Gurdian Guerra.<sup>13</sup>

Mark Falcoff describes the debate within the United States over returning the canal to Panama. Those who were opposed to turning over the canal had many reasons to object. Most of them were either worried about U.S. interests regarding national security, or they opposed turning over the canal on the basis of U.S. national pride.<sup>14</sup> Additionally, the opposition claimed that Panama could not possibly manage such a complex enterprise and predicted great doom and gloom for Panama once the United States relinquished control of the canal.<sup>15</sup>

The most recent book in English on the Panama Canal is *The Big Ditch: How America Took, Built, and Gave Away the Panama Canal*. Written in 2011 by authors Noel Maurer and Carlos Yu, the book concentrates on U.S. imperialism from an economic perspective, and explains the eventual divestment of the canal in terms of the gradual deterioration of its economic benefits to the United States. Maurer and Yu argue that the newly established and politically neutral Panama Canal Administration “ran the canal much more efficiently and commercially than the United States ever did,” an outlook that the findings of this thesis support.<sup>16</sup>

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<sup>12</sup> Virgilio Araúz, *La Lucha por La Soberanía y La Política Actual de La Autoridad del Canal de Panamá* (Centenario de Qué!: July 2, 2002), 6.

<sup>13</sup> Reymundo Gurdian Guerra, *Visión Nacional Sobre el Canal y Las Áreas Revertidas* (Panama: Editorial Universitaria “Carlos Manuel Gasteazoro,” 1999).

<sup>14</sup> Falcoff, *Panama’s Canal*, 12.

<sup>15</sup> Noel Maurer and Carlos Yu, *The Big Ditch: How America Took, Built, and Gave Away the Panama Canal* (Princeton, NJ: Princeton University Press, 2011), 2, 111–112.

<sup>16</sup> Maurer and Yu, *The Big Ditch*, 10.

Although academic literature on the canal is scant from 2000 onward, other sources of information such as journal articles and websites provided a good deal of useful information. One former Panama Canal Commission deputy administrator, Joseph W. Cornelison, wrote in a May 2000 article for the *Journal of Commerce* that Panama had a bright future ahead of it and was full of opportunity for domestic and foreign businesses. He indicated that the Panamanian government had made a wise decision to “insulate” the operating authority of the canal from political interference, and flatly denied the Chinese were taking over control of the canal. Additionally, he predicted that tourism and ecotourism were “areas of great opportunity.”<sup>17</sup> This was the starting point for post-2000 exploration.

#### **D. THESIS OVERVIEW**

This thesis is organized chronologically in five chapters, plus a conclusion. Chapter II provides a historical overview of how the United States came to build and own the Panama Canal, and the creation of the “forced alliance” with Panama. Chapter III reviews the years and events leading up to the signing of the 1979 Carter-Torrijos Treaty, as well as the controversy and debate surrounding the turnover of the Canal to the Panamanians.

Chapter IV will cover the years between the signing of the Torrijos-Carter Treaty and completed turnover of the Panama Canal in 1999. These were crucial years as the United States gradually granted pieces of the Canal Zone to Panama. Politically, Panama emerged from years of military dictatorship, to establish democratically elected leadership that enacted policies beneficial to the country’s future administrative and economic success. This was also a period when the United States provided constructive on-the-job training to Panama in different aspects of canal management.

Chapter V of the thesis will survey and analyze the changes in the Panama Canal Zone that have happened since Panama regained sovereignty over its territory. This section will recount the manner in which many of the former U.S. military bases have

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<sup>17</sup> Joseph W. Cornelison, “Panama Canal on Threshold of a Bright Future,” JOC, May 26, 2000, [https://www.joc.com/panama-canal-threshold-bright-future\\_20000525.html](https://www.joc.com/panama-canal-threshold-bright-future_20000525.html)

been turned into profitable investments and businesses that significantly support Panama's economy. It will also assess the Panama Canal Authority's operations. Additionally, Panamanian strategies, such as direct foreign investment and canal expansion, will be examined for their roles in the Panamanian economy.

Finally, Chapter VI assesses the rewards of Panama's efforts in the supposition that Panama has transformed itself into an emerging economy. The conclusion offers some final observations and thoughts for the future.

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## II. SHORT HISTORY

Early discussions between the United States and Central American governments about building an interoceanic canal across the isthmus took place in the mid-1800s. The U.S. foreign policy initiative was spurred by the onset of the Spanish-American War in 1898. As the *U.S.S. Oregon* set sail from San Francisco and headed for the Caribbean—all the way around South America—"the world watched and waited," as she traveled thirteen thousand miles, to get there just in time for the end of the war. Then the race was on to build a canal!<sup>18</sup> Negotiations pertaining to building the Panama Canal took place in 1902 when the U.S. Congress passed the Spooner Act, which specified the conditions under which the United States would build a canal in Panama. The French had started such a project in the 1880s and failed miserably due to tropical disease and mismanagement. The Spooner Act stipulated that then President Theodore Roosevelt could only offer up to \$40 million to buy the canal concession, that there would be a six-mile zone in which to operate, and that the concession would remain in perpetuity. Under the auspices of the Spooner Act, U.S. Secretary of State John M. Hay and negotiators worked to construct the Hay-Herran Treaty with Colombia, of which Panama was still a province. The Colombian government was suspicious that the Americans and other foreign interests had conspired to prevent Colombia from receiving a fair share of returns from the canal, and rejected the terms of the Hay-Herran Treaty in 1903.<sup>19</sup> President Roosevelt was adamant that Panama was the perfect location for a trans-isthmus canal and wanted to capitalize on what the French had already started. He was under considerable pressure to negotiate an acceptable treaty with the Colombians before Congress voted to build a different canal in Nicaragua.<sup>20</sup>

Philippe-Jean Bunau-Varilla was a French engineer who worked on the original canal initiative in Panama during the 1880s. In 1894, he became an investor in the French company *Compagnie Nouvelle du Canal de Panama* that bought the concession and

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<sup>18</sup> Kitchel, *The Truth About the Panama Canal*, 41; Conniff, *Panama and The United States*, 64–65.

<sup>19</sup> Conniff, *Panama and The United States*, 64–65.

<sup>20</sup> Kitchel, *The Truth About the Panama Canal*, 51.

remaining assets of the first French company that had failed. Bunau-Varilla had a major interest in seeing the United States succeed in negotiating a canal treaty with Colombia, as his company was to be paid handsomely for the concession and assets.<sup>21</sup>

The province of Panama was in the midst of a struggle for independence from Colombia and the Panamanians respected Bunau-Varilla as an engineer and businessman. Panamanian leaders often sought advice from him and believed he represented their best interests. Bunau-Varilla encouraged the Panamanians to engage the Americans in assisting them with independence from Colombia. He even provided the revolutionaries with funding, a recommended constitution, and a sample Panamanian flag.<sup>22</sup>

When the Panamanian revolutionists requested assistance from the United States in their quest for independence, Roosevelt obliged by sending a Navy warship off the coast of Colon, a port city on the Caribbean side of Panama. The Panamanian revolution against Colombian forces occurred on November 4, 1903 without the actual assistance of the U.S. Navy or U.S. aid. Panama declared its independence and a provisional government was placed in control of the isthmus. The new nation appointed Bunau-Varilla as its minister to the United States. The United States officially recognized Panama as a legitimate republic two days later.<sup>23</sup>

Bunau-Varilla wasted no time in departing for Washington as an official representative of Panama, where he urged Secretary Hay to work quickly with him on an agreement for a Panama Canal that would be advantageous to both of them. An official delegation from Panama was on its way to Washington, and Bunau-Varilla pressed Secretary Hay with a sense of urgency, suspecting that his authority would be minimized and the treaty would not progress as he hoped. Secretary Hay agreed that Bunau-Varilla's version of what was essentially the U.S. proposal that had been rejected by Colombia was to be signed with only one change—Secretary Hay changed the wording of one phrase in

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<sup>21</sup> *Encyclopedia Britannica Online*, s.v. "Philippe-Jean Bunau-Varilla," accessed November 1, 2013, <http://www.britannica.com/EBchecked/topic/84597/Philippe-Jean-Bunau-Varilla>.

<sup>22</sup> Kitchel, *The Truth About the Panama Canal*, 54; "Encyclopedia Britannica," "Philippe-Jean Bunau-Varilla."

<sup>23</sup> Kitchel, *The Truth About the Panama Canal*, 55.

Article II of the treaty from “leases in perpetuity” to “grants to the United States in perpetuity the use, occupation and control.”<sup>24</sup>

The Hay-Bunau-Varilla Treaty of 1903 was signed between Secretary Hay and Bunau-Varilla at 6:40 p.m. on November 18, “assuring the construction of a canal under U.S. control and providing millions for shareholders in the Compagnie Nouvelle.”<sup>25</sup> A stunned Panamanian delegation arrived at 9:40 p.m. to find the Panama Canal deal was already completed. Despite having been confronted with a *fait accompli*, the Panamanian provisional government felt it had no choice but to ratify the treaty. The result was what author Michael L. Conniff characterized as a “forced alliance,”<sup>26</sup> without which Panama would have risked losing its newly gained independence that the United States had agreed to guarantee.<sup>27</sup>

The building of the Panama Canal was an amazing feat of U.S. engineering, and the result would prove to be a durable symbol of U.S. ingenuity, power, and national vitality. It was the canal’s symbolic significance, rather than its commercial value, that gave it such an enduring emotional hold on American society.

The canal and the territorial zone that surrounded it also symbolized America’s strategic preeminence in the western hemisphere—a concrete construction of the Monroe Doctrine (literally). The United States built more than 20 military bases in Panama, including a military jungle warfare school during World War II that trained scores of military officers from Latin American countries in the art of counterinsurgency. The zone was a hub for valuable intelligence operations as well as a launch site for American troops to any part of South America.<sup>28</sup>

From the beginning, Panamanians were unhappy in their alliance with the United States. Problems about how to operate an American canal and manage the zone while

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<sup>24</sup> Ibid., 56.

<sup>25</sup> *Encyclopedia Britannica*, “Philippe-Jean Bunau-Varilla.”

<sup>26</sup> Conniff, *Panama and The United States*, 3.

<sup>27</sup> Kitchel, *The Truth About the Panama Canal*, 56–57.

<sup>28</sup> Conniff, *Panama and The United States*, 109–110.

living in peace with the surrounding Panamanian communities arose quickly. President Roosevelt was amenable to making the best of the situation and instituted policies such as limiting free importations to the zone to only energy and construction materials, waiving tariffs on Panamanian goods entering the zone, allowing Panamanians into zone hospitals and constructing a highway for more convenient travel. But underlying every problem, whether from commercial or Panamanian government interests, was the issue of sovereignty, which continued to fester and irritate the Panamanians no matter how many agreeable policies the United States implemented. In order to build the canal the United States had to import most of its own enterprises, from commissaries to hotels to coffee, to support the people and institutions required for such a massive project. As will be explained in more detail later, most of this U.S. government business competed directly with emerging Panamanian enterprise and was damaging to the Panamanian economy.<sup>29</sup>

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<sup>29</sup> Kitchel, *The Truth About the Panama Canal*, 78.

### **III. U.S. CONTROL AND GRADUAL CONCESSIONS**

#### **A. INTRODUCTION**

Because of the never-ending presence of the United States, the Panamanians were never free from the issue of sovereignty and constantly reminded of what was not theirs to control. As time went by, and particularly after the canal officially began operating in 1914, many problems arose that had not been foreseen under the terms of the original treaty (the sole purpose of which was to secure the concession necessary to create the canal in the first place). An attempt to renegotiate the 1903 treaty in 1926 failed, but the election of Franklin D. Roosevelt as the U.S. president a few years later provided the impetus for a new effort, since Roosevelt's Good Neighbor Policy promised to take U.S. relations with Latin America in a new non-interventionist direction.

#### **B. 1936 HULL-ALFARO TREATY**

Roosevelt's election as U.S. president coincided almost exactly with that of Arnulfo Arias as president of Panama. Both presidents confronted difficult economic conditions, brought on by the collapse of the American stock market in 1929, and the subsequent contraction of world trade, on which Panama in particular was especially dependent. President Arias tried different tactics to improve economic conditions, but by 1934 when the Panamanian national bank defaulted, he had no choice but to pursue additional revenue from the Panama Canal. Arias traveled to Washington, DC, to engage directly with Roosevelt. Roosevelt was sympathetic to the economic woes of Panama and agreed to overturn two of the 1903 treaty provisions: "the explicit right of the United States to intervene in Colon and Panama City, and the implicit right of freewheeling merchants in the Zone to compete with Panamanians in selling to tourists or in Panama itself."<sup>30</sup> Additionally, Roosevelt requested Congress to allocate funds for deporting

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<sup>30</sup> Walter LaFeber, *The Panama Canal: The Crisis in Historical Perspective* (New York: Oxford University Press, 1989), 66.

some of the West Indians who were taking jobs in the Canal Zone that might have otherwise been filled by Panamanians.<sup>31</sup>

From that point, negotiators from the United States and Panama then met 110 times from July 1934 to March 1936, when the new Hull-Alfaro Treaty was signed, which “marked a significant, if short step toward recognizing Panamanian rights.”<sup>32</sup> The new treaty provided concessions that were economically advantageous to the Panamanians, including permitting Panamanian businesses to bid on contracts inside the Zone, the right for Panama to tax its own citizens working on the canal, increasing the annual annuity from \$250,000 to \$430,000, and conveyance of complete control over immigration into the nation, including the zone.<sup>33</sup>

Additionally, the Hull-Alfaro Treaty provided three major changes that were advocated by Panama under its quest for total sovereign control on the Canal Zone itself: abrogation of Article I of the 1903 treaty, which had guaranteed Panama’s independence by the United States; elimination of the United States’ right to unilaterally intervene to preserve order in Panama; and the replacement of America’s unilateral obligation to defend the canal with an agreement that its defense would be the shared responsibility of the two governments. These concessions for Panama to guarantee its own independence, to maintain its own security outside of the zone and share in the defense of the canal, and an increased annuity for the canal, were huge victories for the nation of Panama.<sup>34</sup> Furthermore, the new treaty provided a much sought after provision by Panama—U.S. recognition of Panama’s sovereignty over its entire territory. Article III of the treaty stated, “The Canal Zone is territory of the Republic of Panama under the jurisdiction of the United States,” providing confirmation of Panama’s right of sovereignty over the zone.<sup>35</sup>

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<sup>31</sup> Ibid., 65–67.

<sup>32</sup> Ibid., 68.

<sup>33</sup> Ibid., 68–69.

<sup>34</sup> Kitchel, *The Truth About the Panama Canal*, 80–81

<sup>35</sup> LaFeber, *The Panama Canal*, 70.

Roosevelt was of the view that a good relationship with Panama was increasingly important under the purview of his Good Neighbor Policy. He believed that economic stability increased the security of the canal. Relations between the United States and Panama started to improve and Roosevelt even “raised the United States legation in Panama City to embassy level, pleasing status-conscious Panamanians while signifying the importance FDR placed in the area.”<sup>36</sup>

The U.S. Senate did not agree with Roosevelt’s theory and refused to ratify the treaty for three years. The final version of the treaty ratified by the U.S. Senate in 1939 contained less than Roosevelt had negotiated, much to the dismay of Panama. Congress reversed Roosevelt’s promise to hire more Panamanians to work on the canal, specifically allocating high-paying jobs for U.S. citizens only. The approach of war in both Europe and Asia in the early 1940s heightened American concerns about the security of the connection between the Atlantic and Pacific oceans, and it soon became clear that the United States had no intention of honoring the terms of the 1936 Treaty anytime soon. In reality, zone commissaries did not offer contracts to Panamanian merchants. Not only did Washington renege on promises to send back West Indian immigrants, the United States actually imported more Jamaican labor to work on a new third lock system. And, when Panama refused U.S. demands for additional lands for ten air-tracking base sites, the United States took them anyway. The Panamanian economy remained “unhealthy and unbalanced.”<sup>37</sup>

### **C. TREATY OF 1955**

In 1952, charismatic Panamanian National Guard Leader Jose Antonio Remón was elected to the presidency. Despite the institution of sound economic reforms, Panama “lacked the internal market, investment capital, and governmental lending powers”<sup>38</sup> rendering it economically crippled. Remón believed part of any new reform should include increased revenues from the Panama Canal. He boldly requested new treaty

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<sup>36</sup> Ibid., 71.

<sup>37</sup> Ibid., 70–72.

<sup>38</sup> Ibid., 91.

negotiations with President Dwight D. Eisenhower and his negotiators pressed for an extensive list of reforms, to include many of the reforms from the 1936 treaty with which the United States had still not complied. Most importantly, Remón insisted on U.S. recognition of Panamanian sovereignty over the Panama Canal Zone and equal representation of both countries' flags. President Eisenhower "wished to concede where U.S. vital interests were not at stake."<sup>39</sup> Eisenhower was open to negotiations with the exception of ceding U.S. control over the canal and Canal Zone, and limiting the costs of concessions. Dialogues continued while mounting external events influenced the negotiations as well. President Remón's wife, Cecilia, complained in a speech to the Organization of American States that the United States was discriminating against Panama in the Canal Zone, which she claimed played directly into the hands of the communists. In Egypt, Colonel Gamal Abdel Nasser had seized the Suez Canal while overthrowing the Egyptian government in a coup. The Egyptian uprising caused considerable angst for the U.S. government who feared Panama might consider a similar action over the Panama Canal.<sup>40</sup>

In 1955, a treaty was finally signed providing some major concessions to Panama, mostly of the economic variety. The final draft of the 1955 treaty included the following:

- The U.S. increased its annual annuity to \$1.9 million
- The U.S. relinquished its monopoly of railroad and highway construction
- The U.S. surrendered its authority to control Panama City and Colon sanitation systems
- The U.S. commissaries became prohibited from selling goods to anyone other than U.S. citizens and Panamanians that lived in the zone;
- The U.S. representatives would purchase supplies from Panama, subject "to the discretion of the Zone's purchasing agents."<sup>41</sup>
- The U.S. would turn over some lands outside of the zone to Panama, although Panama agreed to 19,000 acres in Rio Hato for 15 years of use by the U.S. military.<sup>42</sup>

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<sup>39</sup> Conniff, *Panama and The United States*, 108.

<sup>40</sup> Conniff, *Panama and The United States*, 108; LaFeber, *The Panama Canal*, 91.

<sup>41</sup> LaFeber, *The Panama Canal*, 93.

<sup>42</sup> Ibid.



Eisenhower went one step further and signed a personal “Memorandum of Understanding Reached” whereby he promised to affect more equality within the zone, provide more opportunities for Panamanians, and request from Congress a single and equal wage for all employees working Canal jobs, regardless of whether they were American or Panamanian. But the United States refused to budge on the 1903 Treaty sovereignty rights and refused to give Panama a share in the tolls. The United States was not in a hurry to honor many of the stipulations of the 1955 Treaty, preferring the status quo as much as possible, and generally providing only lip service to its obligations.<sup>43</sup>

#### **D. DETERIORATING RELATIONS AND THE FLAG RIOTS**

As mentioned, Egypt’s seizure of the Suez Canal in 1956—a move the United States ultimately backed at the expense of two important allies, Britain and France—inspired Panamanian leaders to push harder for more reforms in the Panama Canal Zone. Of particular irritation to the Panamanians were the unequal wages for Panamanians doing the same work as Americans in the zone. By 1959, the atmosphere in Panama was contentious, with incidents of Cuban assisted insurgency movements and organized labor movements demanding better concessions from the Panamanian government. On Independence Day, November 3, 1959, students aided by prominent political figures made their way to the Canal Zone to raise the Panamanian flag and assert their sovereignty. When zone police and Army units arrived, widespread rioting erupted and American buildings were burned. A second series of riots took place a month later, leading military observers to note that these riots “were better organized, involved larger crowds, and were more violent in their expression of anti-U.S. sentiments than were those of 3 November.”<sup>44</sup> President Eisenhower quickly moved to provide aid, procure goods, and recognize Panama’s sovereignty symbolically by passing a presidential directive to fly the Panamanian flag alongside the U.S. flag at the embassy and Shaler’s Triangle, an

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<sup>43</sup> Ibid., 94.

<sup>44</sup> Conniff, *Panama and The United States*, 112.

important central plaza in the zone named after James R. Shaler, one of Panama's founding revolutionaries.<sup>45</sup>

In the early 1960s, U.S. President John F. Kennedy continued to work with Panama. He supplemented President Eisenhower's aid program with additional financial aid in order to prevent Panama's newly elected government, headed by President Roberto Chiari, from becoming too inspired by Cuban leader Fidel Castro's or any other communist regime. But while he impassively listened to Chiari's grievances, Kennedy had his team of experts explore the feasibility of building another sea-level canal in Panama or elsewhere in Central America. In 1963, Kennedy pleased the Panamanians with the inauguration of a bridge over the Panama Canal and the designation of 15 sites within the Canal Zone where the flags of both nations would be flown.<sup>46</sup>

The Flag Riots of 1964 have generally been characterized as the last straw for the Panamanians. According to authors Herbert and Mary Knapp, who lived and worked in the Panama Canal Zone for 19 years, Canal Zone Governor, Robert J. Fleming, did not judge the U.S. government's decision to fly dual U.S. and Panamanian flags side-by-side in public locations in the zone to include schools. The governor ordered all flags be removed from the schools, and when the kids returned from Christmas break in January 1964, they were disheartened to see that their flags were not flying. But the flagpole still remained. For several days the kids at Balboa High School, on the Pacific side of the Canal Zone, complained and petitioned the school to allow them to fly American flags. Early in the morning on January 7, before school started, approximately 75 students in a spectacle before several hundred others hoisted the American flag on the single existing flagpole in an act of defiance in front of the high school. When school started for the day, several school administrators removed the flag, but it only triggered what can be described as an adult supported protest for the next two days, as junior college students arrived thirty minutes later to raise another American flag, and small groups of students and sympathizing adults stood watch over the flag for the next two days. Their protest was not based on opposition to the dual-flag policy, but rather opposition to the removal

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<sup>45</sup> Ibid., 111–13.

<sup>46</sup> Ibid., 116–19.

of the American flag.<sup>47</sup> Nevertheless, it further dramatized how unstable public attitudes in Panama had become.

On the morning of January 9, a group of 200 Panamanian students arrived to the zone and headed toward Balboa High School. Zone police stopped them, but five of them were allowed to proceed to the flagpole with their tattered Panamanian flag. The Panamanian group wanted the American students to take down their flag and have the Panamanian flag flown instead. An argument broke out between the students at the flagpole and zone police escorted the group of five Panamanian students away. When the five students returned to their larger group, they told their *compadres* the Americans had beaten them and the police had mangled the Panamanian flag. The entire crowd set off running and threw rocks at houses and overturned trashcans, making a general commotion. Upon returning to Panama City, the students told reporters that Zonians had shot at them as they were leaving the zone. As can be imagined, the news set off massive rioting, to include burning and looting in multiple areas of Panama, which left hundreds injured and 24 dead, including four Americans.<sup>48</sup>

Panama officially suspended its relations with the United States as a result of the 1964 Flag Riots, the first major event with Panama to confront President Lyndon B. Johnson following President Kennedy's assassination. Johnson agreed that it would be in the United States' best interest to explore new negotiations with Panama regarding the Panama Canal. The two countries worked diligently to produce a treaty that would replace the 1903 Treaty and the three resultant treaties of 1967 eventually became the basis of the 1977 Panama Canal Treaties signed by President Carter. The three treaties were: "one dealing with operation of the lock canal for a set period of time; a second authorizing the United States to build a sea-level canal; and the last addressing the issue of military security and bases in the canal."<sup>49</sup> Unfortunately, the draft treaties were leaked to the press before either the American or Panamanian leaders could brief their

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<sup>47</sup> Herbert Knapp and Mary Knapp, *Red, White and Blue Paradise: The American Canal Zone in Panama* (New York: Harcourt Brace Jovanovich, 1984), 54–55.

<sup>48</sup> Knapp and Knapp, *Red, White and Blue Paradise*, 55–56.

<sup>49</sup> Conniff, *Panama and The United States*, 122.

legislatures and thus started the great debate, both in the Congress and in court of public opinion that stalled the negotiations for thirteen more years.<sup>50</sup>

#### **E. CARTER-TORRIJOS TREATY OF 1977: FINAL CONCESSION**

President Carter was initially caught unaware of the controversy that continued to brew in Panama over the canal. Carter's position was that the original treaty provided legal sovereignty of the canal to Panama and that "we could share responsibilities more equitably without giving up practical control of the canal."<sup>51</sup> Upon learning more about the history and what previous U.S. presidents had or had not accomplished about the issue of renegotiation, Carter believed a new treaty was absolutely necessary to "correct an injustice," and that Panama should be given control of the Canal.<sup>52</sup> "I was convinced it was an unfair original agreement that was foisted upon the Panamanian people against their will," Carter said, "I wanted to treat Panama fairly."<sup>53</sup>

Carter provides his reasons for pursuing a new canal treaty in his book, *Keeping Faith: Memoirs of a President*. His reasons were: 1) to correct an injustice, 2) the canal was in danger of sabotage, 3) the canal could not be defended, 4) Panama's economy depended on it, 5) a stable Panama was in the United State's best interest to avoid communist influence, and 6) loss of support from Latin America and other developing countries.<sup>54</sup>

After the Flag Riots, "Panama broke diplomatic relations with the United States, and almost all Latin American nations and the entire community of developing nations demanded that corrective action be taken. Presidents Johnson, Nixon, and Ford all promised to negotiate a new and more balanced canal treaty, but public congressional opposition had been too intense and powerful to confront," Carter wrote in his diary. "The key was giving Panama ownership and control of the canal but retaining the United

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<sup>50</sup> Ibid., 121–23.

<sup>51</sup> Jimmy Carter, *Keeping Faith: Memoirs of A President* (New York: Bantom Books, 1982), 155.

<sup>52</sup> Ibid.

<sup>53</sup> Jimmy Carter, *White House Diary* (New York: Farrar, Straus and Giroux, 2010), 30.

<sup>54</sup> Carter, *Keeping Faith*, 155–56.

States' right to defend it as well as guaranteeing our country priority in its use in an emergency."<sup>55</sup>

Besides being the right thing to do to promote human rights and democratic ideals, Jimmy Carter's second and third reasons for turning over the Panama Canal were related. The canal was in danger of being sabotaged by Panamanian dissident groups exploiting the mantra of U.S. anti-imperialism. Under such circumstances, the canal could not be effectively defended. According to U.S. military advisors, the canal could not be defended permanently unless there was a good working relationship between the United States and Panama. It would take more than 100,000 armed troops to defend against a hostile surrounding Panama (more if other Latin American countries also became antagonistic).<sup>56</sup> The canal had ceased to be of strategic value to the U.S. military when it became too narrow for newly built capital ships in the 1940s. The canal was also undeniably vulnerable to attack since the advent of long-range missiles carrying nuclear weapons.<sup>57</sup>

Carter listed the economic future of Panama as another of his reasons for relinquishing the canal. Since its days under Spanish colonial rule, Panama had enjoyed the benefits of serving as a strategic locale in the royal empire. During the pursuit of independence, Panama dreamed of becoming an international crossroads for commerce in her own right. Carter recognized the strength of Panama's economy depended on successful renegotiation of the treaty and he believed that promoting democratic values and supporting the Panamanian effort for sovereignty over the canal would have second order effects of peace, pride and Panamanian creativity that would enable Panama's stability. While promoters of the treaty knew that there was some Cuban influence in Panama, it was strongly believed that Panama knew it was in their best interest to avoid communism, which is another reason they were depending on the canal for their own economic gain and viability.<sup>58</sup>

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<sup>55</sup> Carter, *White House Diary*, 30.

<sup>56</sup> Carter, *Keeping Faith*, 155–56.

<sup>57</sup> Conniff, *Panama and The United States*, 109.

<sup>58</sup> Carter, *Keeping Faith*, 155–56.

Carter's final motivation for turning over the canal was the moral example it would set for other Latin American and developing nations. Failure to act was causing other Latin American countries to have to choose between the United States and Panama. It would be disadvantageous to lose support from other Latin American countries or for them to actively go against U.S. policies.<sup>59</sup> The hypocrisy of the U.S. stance against Russia's treatment of its colonial republics, such as Poland and Czechoslovakia, during the Cold War, while the United States still treated the small nation of Panama as an imperialistic conquest, was not lost on Carter. After the treaties were signed, Carter wrote in his diary, the president of Costa Rica, Daniel Oduber, "was complimentary about the fact that the entire hemispheric interrelationship has been changed by my pursuit of human rights and by the symbolism of the Panama treaty."<sup>60</sup>

Any discussion of the Panama Canal Treaties would be incomplete without mentioning the involvement and influence of General Omar Torrijos, who negotiated directly with President Carter for a new treaty. General Torrijos understood American psychology in 1968 when he took over as the de facto leader of Panama in a military coup. The Knapps assert Torrijos based his campaign for a new canal treaty on two assumptions: one, Americans could be made to feel ashamed of their treatment of Panama over the canal, and two, Americans would be fearful of a Vietnam-like episode in Central America.<sup>61</sup> The authors wrote Torrijos figured "Americans would turn over the Canal to Panama to calm their fears, but would tell themselves they were doing it to salve their conscience."<sup>62</sup>

Torrijos played hardball with the United States by cultivating international sympathy. After little progress with U.S. President Richard Nixon in 1973, he decided to take his case to the United Nations Security Council and convinced the council members to convene a meeting in Panama in March 1973. At the meeting he passionately made his case for the sovereignty of Panama and requested the Security Council to pass a

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<sup>59</sup> Ibid.

<sup>60</sup> Carter, *White House Diary*, 96.

<sup>61</sup> Knapp and Knapp, *Red, White and Blue Paradise*, 235.

<sup>62</sup> Ibid.

resolution that would renegotiate the U.S.-Panamanian relationship. The final vote was 13-1 in favor of Panama with United States vetoing the resolution.<sup>63</sup> Later, Torrijos appealed persuasively to President Carter on a personal level. Carter wrote in his diary that during a planning meeting with General Torrijos, the general became “quite emotional about what this meant to Panama and outlined the embarrassment they had felt for decades about this colonial intrusion into their country.”<sup>64</sup> In addition to Carter, Torrijos convinced another group of Americans, the U.S. financial community, of the importance of the Panama Canal. As will be explained in a later section of this thesis, the bankers supported the new treaty because Torrijos had induced heavy U.S. investment in the Panamanian banking industry through extensive regulatory easing. If the Central American nation were to default on its loans, American banks stood to immediately lose over \$300 million in investments and that was just a start. So the bankers had no problem supporting Torrijos’ vision for the Panama Canal.<sup>65</sup>

Once final negotiations were completed in 1977, Carter knew it was going to be extremely challenging to have the treaties ratified by the Senate, as many senators and congressmen were already on record opposing any new treaty for the Panama Canal. Anti-treaty forces within the Republican Party, led by Ronald Reagan, were in full force for more than three years since renegotiation principles had been publicized in 1974. After much consternation and controversy by the pro- and con-forces of the United States government, the Carter-Torrijos Treaty was finally officially ratified on September 26, 1979.<sup>66</sup>

The concluding Panama Canal Treaties of 1977 finally gave the nation of Panama what it wanted: complete sovereignty over their national territory and control of the Panama Canal. The agreement consisted of two treaties. The Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal declared that as an

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<sup>63</sup> LaFeber, *The Panama Canal*, 142–43

<sup>64</sup> Carter, *White House Diary*, 90.

<sup>65</sup> Knapp and Knapp, *Red, White and Blue Paradise*, 236–37.

<sup>66</sup> LaFeber, *The Panama Canal*, 186.

international transit waterway, the canal should remain permanently neutral.<sup>67</sup> The Panama Canal Treaty, which was based on the Kissinger-Tack agreement of 1974, and indirectly from the earlier negotiations in 1967, abrogated the 1903 Treaty. In addition to turning over the Panama Canal to Panama on December 31, 1999, the Carter-Torrijos Treaty of 1977, which was ratified by Congress in 1978, authorized the return of the entire Canal Zone, including a multitude of U.S. military bases that would be gradually released to Panamanian control over twenty years. The treaty denied the right of any residual U.S. military forces. Furthermore, U.S. personnel would train the Panamanians how to operate and maintain the canal as Panamanian personnel took over the majority of administrative positions. The United States would still be able to defend the canal if it felt it had a vital interest in doing so. By the end of the century, the giant grasping hand around the isthmus would no longer have its grip on Panama.<sup>68</sup>

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<sup>67</sup> Ibid., 243.

<sup>68</sup> Ibid., 159–62.



## IV. TWENTY-YEAR INTERLUDE

### A. INTRODUCTION

The Carter-Torrijos Treaty was formally ratified on October 1, 1979, and the final handover of the Panama Canal and surrounding Canal Zone properties took place on December 31, 1999. There were good reasons for a 20-year turnover process. It would allow time for the Panamanians to gradually assume controlling positions in the Isthmian Canal Commission and learn the mechanics of running the canal and maintaining the equipment. It would also allow Panama a lengthy period of time in which to plan for each reverted U.S. military base, including usage of real estate, permanent physical buildings and infrastructure.

As Falcoff alluded to, there were a number of challenges that Panama would face in taking over the canal and associated properties. Besides learning how to take care of the canal and what to do with reverted properties, Panama would need to figure out how to replace thousands of lucrative U.S. civil service jobs with what would become Panamanian jobs. Panama would also have to set aside funds for long term improvements to the canal in order to keep it competitive with other global shipping routes. Additionally, Panama would have to lower widespread public expectations that the canal would solve all of the nation's problems.<sup>69</sup> During the 1980s, the United States assumed Panama was incapable of running the canal, and indeed, Panamanians were scared. Evidence would show that Panama was very slow at taking the helm. The years between 1979 and 1989 were somewhat wasted, largely a result of policies enacted or not enacted by Panamanian dictator Manuel Noriega. But planning went into full affect during the 1990s, with the creation of the Interoceanic Region Authority (ARI) in February 1993, and the establishment of the new Panama Canal Authority (ACP) in May 1994.<sup>70</sup>

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<sup>69</sup> Falcoff, *Panama's Canal*, 111.

<sup>70</sup> Nicolas Ardito Barletta, "Investment Opportunities in Panama's Interoceanic Region," in *Investment Opportunities in the Panama Canal Area: An International Investment Forum*, hosted by American Chamber of Commerce and Industry of Panama and Interoceanic Region Authority, Panama, November 15–16, 1995 [conference booklet]: 6; Maurer and Yu, *The Big Ditch*, 302.

It is impossible to assess the success of Panamanian ownership of the canal and Canal Zone during the 21st century without having some idea of where the Panamanian's stood with respect to the canal in the 20th century. This chapter will address the years between 1979 and 1999, beginning with state of Panama under the leadership of General Omar Torrijos and the morphing of his economic policies under General Manuel Noriega after Torrijos' death in 1981. It was a period of squandered time when crucial planning might have been accomplished but was not. Once Noriega was toppled by the United States and democracy was instituted in Panama, preparation for acquisition of the Panama Canal and Canal Zone began in earnest.

Throughout their history, Panamanians "widely believed that a canal across the Panamanian isthmus would transform Panama into one of the great commercial centers of the world."<sup>71</sup> But as documented in Chapter II, the Panamanians received little benefit from the canal, and spent the better part of the 20th century trying to gain economic concessions from the United States. In the words of authors Noel Maurer and Carlos Yu, Panama was simply "passed by the ditch,"<sup>72</sup> as years of American control continued to deny Panama true economic gain from the canal or "participation in the economy of the Panama Canal,"<sup>73</sup> particularly with regard to the "commissaries" that provided food and goods for the U.S. citizens, other employees, and passengers transiting the zone. As previously mentioned, these commissaries directly competed against and undermined Panamanian commercial interests, even though concessions gained from the 1955 treaty gradually decreased economic impact to Panama in later years.<sup>74</sup>

The early 1980s were seminal years for Panama. On paper, the "Canal Zone," as it was known as, disappeared in 1979, but the Panamanian government actually took over the zone in 1982. In 1980, the first full year of Carter-Torrijos Treaty implementation, the Panama Canal Commission began to pay the government of Panama. Panamanians acknowledged they needed to install political institutions that would prevent the canal

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<sup>71</sup> Maurer and Yu, *The Big Ditch*, 189.

<sup>72</sup> Ibid.

<sup>73</sup> Ibid., 190.

<sup>74</sup> Ibid., 190–92.

from falling into a trap of corruption and they needed to turn the canal into a profitable venture by running it more efficiently than the Americans.

## **B. THE LEGACY OF OMAR TORRIJOS**

On October 11, 1968, Panamanian president Arnulfo Arias was overthrown in a non-violent military coup. The next day the National Guard, which was already being recognized by the United States for its “pre-eminent political role,” took over Panama as “protector” of the nation.<sup>75</sup> A new declaration in 1972 decreed General Omar Torrijos the “Maximum Leader of the Panamanian Revolution.”<sup>76</sup> The new constitution not only provided legal legitimacy for the regime, it empowered Torrijos with an unprecedented six-year term.<sup>77</sup> Publicly, Demetrio Lakas was named to be the pro forma president of Panama, but in actuality Torrijos made all social, economic and foreign policy decisions.<sup>78</sup>

According to Panamanian-born author Carlos Guevara Mann, Omar Torrijos’ tenure was characterized by a three-pronged approach in his policies. First, Torrijos amassed wide appeal throughout Panama, especially among the poor, by espousing nationalist rhetoric focused on gaining sovereignty of the Panama Canal and Canal Zone. Second, he instituted populist programs designed to redistribute wealth to various sectors of society through a multitude of co-optation and corruption schemes. Third, while outwardly denouncing the traditional oligarchy, he actually catered to the propertied class by expanding opportunities for growth of key business constituents and foreign investors.<sup>79</sup>

The motive for Torrijos’ actions never went beyond the sustainment of his regime and the power of the National Guard. In order to gain support from the people, he devised

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<sup>75</sup> Carlos Guevara Mann, *Panamanian Militarism: A Historical Interpretation* (Athens, OH: Ohio University Center for International Studies, 1996), 70, 107.

<sup>76</sup> Ibid., 129.

<sup>77</sup> Ibid.

<sup>78</sup> Robert C. Harding, *Military Foundations of Panamanian Politics* (New Brunswick, NJ: Transaction Publishers, 2001), 87.

<sup>79</sup> Mann, *Panamanian Militarism*, 138.

an inclusionary plan to co-opt the *campesinos* (farmers or land-laborers) and other disadvantaged classes that had been deprived and oppressed by the former ruling oligarchy. In the late 1960s, more than half of the Panamanian population was living in poverty.<sup>80</sup>

Torrijos deftly understood that in the peasants lay the roots of his power because, outside of the Canal area's ribbon of land, Panama is an agricultural country where half the population resided. These peasants' inborn resentment of their mistreatment and depravation under the oligarch could be harnessed and channeled into a campaign against the hegemonic rule of the United States.<sup>81</sup>

This sense of nationalism on the part of the underrepresented rural and poverty stricken classes that Torrijos was able to tap into was the foundation of his popular support for the first ten years of his dictatorship. Additionally, the reforms discussed in the following paragraphs were enough to convince the lower classes that Torrijos was on their side, the side of social justice.<sup>82</sup> This was an illusion but, for a while, a powerful one.

Torrijos implemented appealing populist policies early in his term. He began a long-term trend of public sector expansion, ultimately "diminishing importance of the Canal Zone and the banana enclaves within the national economy."<sup>83</sup> In greatly expanding the civic sector primarily through national investment of foreign capital, Torrijos co-opted a new bureaucratic lower-middle class of over 25,000 by providing jobs, special services, and discounted public housing.<sup>84</sup> Another attractive project was a land redistribution program that allocated property to the very poorest *campesinos* and was accompanied by special loans for land development.<sup>85</sup>

In addition to public sector growth and the implementation of land distribution, the Torrijos regime reformed the Labor Code in 1972 to benefit workers and peasants.

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<sup>80</sup> Harding, *Military Foundations*, 98.

<sup>81</sup> Ibid., 103.

<sup>82</sup> Ibid., 104.

<sup>83</sup> Steve C. Ropp, *Panamanian Politics: From Guarded Nation to National Guard* (Stanford: Hoover Institution Press, 1982), 94.

<sup>84</sup> Ibid., 96.

<sup>85</sup> Harding, *Military Foundations*, 99.

This inclusive nationalist policy included “guaranteeing an extra month’s bonus pay, maternity leave (for the first time), a reduction in the number of foreign-born workers allowed in any place of employment (from 25 to 10 percent), and a restriction on employers’ ability to unilaterally change work conditions.”<sup>86</sup> Furthermore, a new Worker’s Bank was created to supply loans to laborers previously unable to access capital. Torrijos incorporated labor unions into the political machination and by 1973, about 20 percent of the Panamanian workforce were not only members of the unions, but also avid supporters of the Torrijos regime.<sup>87</sup>

In an effort to build and maintain the power of his closest allies as well as the Panamanian National Guard, Torrijos embraced schemes of corruption typical of Latin American dictatorships of the era. He installed friends and family into his bureaucracy, supplied favors and surplus government revenue to National Guard leaders and officers, and diverted funds from the state accounts into private businesses run by loyal cronies. The effect may have strengthened his political position, but it reduced “the possibilities for diversification, which Panama’s economy urgently required.”<sup>88</sup> Under Torrijos there was less and less private-sector economic activity to counterbalance the growing public sector and burgeoning national debt which resulted from the fact that it was foreign capital that was utilized to create that public sector.<sup>89</sup>

Economically, Panama became “a center for export by multinational corporations of goods and services to Latin America,”<sup>90</sup> which made it attractive for American investors. By 1978, American investment in Panama totaled more than that in all of the rest of Central America combined. Because Panama’s legal currency was the U.S. dollar, companies “could service dollar transactions overseas profitably, beyond the reach of

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<sup>86</sup> Ibid., 97.

<sup>87</sup> Ibid., 96–97.

<sup>88</sup> Mann, *Panamanian Militarism*, 151.

<sup>89</sup> Ibid.

<sup>90</sup> Ropp, *Panamanian Politics*, 108.

U.S. regulations.”<sup>91</sup> Under Torrijos, the economy of Panama was increasingly based, not on the Panama Canal, but foreign investment and offshore banking industries.

Torrijos’ was able to stimulate some economic growth primarily through the periodic nationalization of foreign-owned industries. The U.S.-owned Compañía Panameña de Fuerza y Luz, the electric power company that serviced Panama City and Colon, was nationalized in 1972, and a subsidiary communications company of U.S.-owned Western Union was nationalized in 1974. Around the same time, through a new contract between Panama and a U.S. company, United Brands, Panama acquired large banana plantations and a percentage of them were leased back to United Brands to manage and export bananas. The remaining plantations were transformed into a state banana company. Torrijos also instituted a liberal banking scheme enabling the establishment of a plethora of banking institutions that became immediately willing to finance Torrijos’ populist policies. This also added to economic growth and assisted the population by providing jobs.<sup>92</sup>

The reliance on foreign capital to support the public sector caused massive debt. By 1980, Panama had the highest indebtedness in Latin America, with foreign debt totaling close to \$2.1 billion, much of it originating from the United States.<sup>93</sup> In accordance with recommendations of the International Monetary Fund, the government was forced to cut approximately 18,000 temporary public employees, but instead of making significant cuts within the permanent public sector, the Torrijos regime turned to inviting foreign investment into the private sector—the main constituent of which was the Panama Canal and supporting Canal Zone. These latter properties would slowly begin reverting to Panamanian ownership beginning in 1979.<sup>94</sup>

Torrijos had originally argued for maximum public use of reverted properties as they were turned over to Panama, in order to persuade the public to approve the Carter-Torrijos Treaty. Once the treaty was signed, a societal debate over public-versus private-

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<sup>91</sup> Ibid.

<sup>92</sup> Mann, *Panamanian Militarism*, 121–125; Ropp, *Panamanian Politics*, 94.

<sup>93</sup> Mann, *Panamanian Militarism*, 121.

<sup>94</sup> Ropp, *Panamanian Politics*, 97.

sector expansion in the Canal Zone became a significant issue. Torrijos wanted to ensure there was ample opportunity for private investment in the reverted properties in order to stimulate the economy, but the regime recognized a need to balance the mix of public and private sector relationships within the Canal Zone.<sup>95</sup>

Up until 1977, public discourse in Panama fervently revolved around anti-American nationalism and the quest for sovereignty over the Panama Canal. When the treaty was signed, Panamanians reveled in their success at negotiating for their national treasure, but once sovereignty was no longer an issue, Panamanians directed their attention to the economic realities and failures of the government to provide for the nation. Widespread opposition increased as society denounced corruption of the regime. Torrijos, although no stranger to brutal oppressive tactics, sought to appease the Panamanians and the Carter administration, which was pressuring him about human rights, by implementing several reforming policies. He allowed the return of exiles, and permitted the renewal of limited political party activity, as well as independent media. He also passed a constitutional reform that would consider a “return to the system of proportional representation and direct presidential elections in 1984.”<sup>96</sup>

Torrijos’ “*pan o palo*” (bread or club) policies had lasting effects, which continued into the dictatorship of his successor, General Manuel Antonio Noriega. There are at least two reasons Torrijos was remembered with any fondness by the Panamanian people. First, some of his initial populist “*pan*” measures did provide economic relief to Panama’s lower classes. Second, Noriega’s exceptionally brutal reign turned out to be more detrimental than that of Torrijos for Panamanian citizens. During Torrijos’ early years, land reform and agriculture legislation spurred domestic food production and many Panamanians benefitted from Torrijos’ transformation of Panama into an international banking center. But overall, by the time of his unexpected death in a plane crash in 1981, the negative effects of Torrijos’ policies outweighed the benefits:

Economic deterioration was a major result of the dictatorship’s redistribution policies, aimed not at authentic human development, but at

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<sup>95</sup> Ibid., 97–98.

<sup>96</sup> Mann, *Panamanian Militarism*, 155.

buying support for the regime. Economic mismanagement and widespread graft, financed by foreign capital, brought alarming indebtedness and, as a consequence, an actual deepening of dependence.<sup>97</sup>

Throughout the 1970s, Panama was in a position to make genuine gains in economic growth to aid all classes, particularly through U.S. investment. The nation initially benefitted from banana exports through the United Fruit Company (since the early 1900s), and as that dwindled, Panama's emergence as a multi-national service center with free trade zones and geographically advantageous ports in which to move "dollarized" goods to and through Latin America prevailed. Unfortunately whatever real potential General Torrijos had at raising the economic success for people of Panama, was ruined by corruption and mismanagement, which kept Panama's middle and lower classes economically disadvantaged by an unequal distribution of wealth in Torrijos' policies.

### **C. THE NORIEGA YEARS: WASTED TIME**

Since Panama had no control over the Panama Canal prior to 1979, the nation concentrated on specialized growth sectors that were "designed to capitalize on the Panama Canal as best they could without having control over the canal itself. These sectors were flag of convenience ships, the Colon Free Zone, and the International Banking Center. These sectors generated positive economic growth for Panama, but little employment or tax revenue."<sup>98</sup>

By 1982, what few improvements General Torrijos had made to the Panamanian economy through state investment and international services had begun to collapse. The nation's indebtedness doubled to over \$4 billion by the mid-1980s, eating up half of the national budget for payments. As a result, the government had to cut spending which halted national investments, leading to a reduction in workers' incomes. Between 1978 and 1982, the international service sector comprised of services to support the canal, plus banking industries, constituted three-quarters of Panama's national growth and had been

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<sup>97</sup> Mann, *Panamanian Militarism*, 150.

<sup>98</sup> Maurer and Yu, *The Big Ditch*, 269.



growing at an annual rate of almost 8 percent. But in 1983, competition from the new Trans Isthmian Oil Pipeline (as will be discussed in a later section of this chapter) significantly decreased Alaskan oil shipping through the canal. Due to an increase of Panamanian workers in the canal (as required by the Carter-Torrijos Treaty) and a decrease in ship traffic, Panama increased the tolls, but it was not enough to buoy the ever-sinking economy. At the same time, Panama's export markets in the United States and other Latin American countries were battling their own economic depressions and similar debt problems. Properties that had already been reverted to Panamanian control in the Canal Zone deteriorated.<sup>99</sup>

In the Canal Zone, the railroad became unsafe, streets became potholed, airport runways became grass covered. Ships were damaged in port because of poor facilities and uncooperative labor. Panamanian officials in turn blamed the United States for not maintaining the Canal's facilities before 1979... and for making long-term planning impossible because Congress would only pass annual funding measures... the Canal was becoming dangerously less competitive.<sup>100</sup>

Manuel Noriega did little to assist his faltering nation. What should have been a critical time for the planning of foreign investment inside the Zone became a time of squander and misuse by the Noriega regime. As a lieutenant in the National Guard, Noriega had been General Torrijos' intelligence officer. He was a strongman who used brutal methods to suppress Torrijos' opponents. He was also an informant for the CIA. He provided valuable intelligence about the Nicaraguan Sandinistas to the American government, which is why the United States did nothing to curb his widespread human rights abuses and willingly overlooked his corruption and involvement in drug trafficking.<sup>101</sup> During Noriega's rule, Panama became a major transshipment center for illegal narcotics trafficked from South America to the United States. According to a 1988 *New York Times* article, Panamanian banks laundered \$600 million in narcotics profits by 1987.<sup>102</sup>

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<sup>99</sup> LaFeber, *The Panama Canal*, 189–90.

<sup>100</sup> *Ibid.*, 191.

<sup>101</sup> Mann, *Panamanian Militarism*, 159–60, 165–69.

<sup>102</sup> Elaine Sciolino, "Accountant Says Noriega Helped Launder Billions," *New York Times*, February 12, 1988.

Noriega himself acted as guarantor for the laundered assets. Paper money flew into Panama as freight; uniformed soldiers picked it up at the airport in armored cars. The cash went into numbered accounts in the name of dummy corporations created under Panama's liberal incorporation laws. The money was then split up into multiple numbered accounts within the same bank, leaving no paper trail, transferred to different banks, and finally placed in legitimate investments outside of Panama. Noriega allegedly received a commission between 1 and 10 percent for providing this service.<sup>103</sup>

The United States supported Manuel Noriega until 1985 when a series of miscalculations on the part of the Panamanian leader made him a target of American anger and suspicion. Noriega viciously murdered political opponent Hugo Spadafora, forced the resignation of Panama's officially elected president Nicolas Ardito Barletta, and then arrested his second-in-command, Roberto Diaz Herrera, causing middle-class demonstrations and an attack on the U.S. Embassy. In 1987 the U.S. Senate called for Noriega to resign. He refused, and instead "tried to sell docking rights to the Soviet fishing fleet and asked the rogue state of Libya for aid."<sup>104</sup> The United States indicted Noriega on drug charges and subsequently froze all of the Panamanian assets in the United States, including the banks, but Noriega continued to resist. The last straw for the United States came in 1989, when Noriega boycotted the Panama Canal Commission, and ostentatiously "declared war" on the United States, a move followed by attacks on Americans living and working in the Canal Zone.<sup>105</sup> Operation Just Cause removed Manuel Noriega in December 1989, thus ending military dictatorship in Panama.<sup>106</sup>

The effect of all this was to make an economic Armageddon for Panama. Gross Domestic Product (GDP), which was growing at a rate of 9.2 percent in 1981, was *declining* at a rate of 13.4 percent by 1988. An already high unemployment rate of 8.4

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<sup>103</sup> Maurer and Yu, *The Big Ditch*, 286.

<sup>104</sup> *Ibid.*, 291.

<sup>105</sup> Margaret E. Scranton, *The Noriega Years: U.S. Panamanian Relations, 1981–1990* (Boulder, CO: Lynne Rienner, 1991) quoted in Carlos Mann, *Panamanian Militarism: A Historical Interpretation* (Athens, OH: Ohio University Center for International Studies, 1996), 177.

<sup>106</sup> Mann, *Panamanian Militarism*, 287–97.

percent in 1982 spiked to 16.3 percent in by 1988.<sup>107</sup> But the Canal still provided hope for future prosperity. In June 1977, *The Washington Post* newspaper had cited a United Nations report that indicated Panama could earn an annual profit of \$2 billion from the canal once it was commercialized,<sup>108</sup> and that's what the Panamanians were holding out for. The Noriega years were nothing but wasted time.

#### **D. PANAMA PLANS FOR REVERTED PROPERTIES**

Panamanian President Guillermo Endara, who had legitimately beat Manuel Noriega in the September 1989 election, took over the presidency as soon as the U.S. military overthrew Noriega in Operation Just Cause.<sup>109</sup> As a result of the government's absence of planning and lack of attention to the areas that had been reverted thus far, by 1992 the majority of the Panamanian population believed the government was incapable of administering the Panama Canal and reverted properties on its own. In February 1993, President Endara and the National Assembly created the Regional Interoceanic Authority (ARI) "to guard, use, and administer reverted properties"<sup>110</sup> inside the zone, which would henceforth be called the Interoceanic Region. It consisted of 812,000 acres of real estate. The National Assembly also established several major national parks along the sides of the canal area in order to prevent deforestation and commercial exploitation of these lands.<sup>111</sup> In 1994 a former president and economic specialist Nicolas Ardito Barletta was appointed as the General Administrator of the ARI.<sup>112</sup>

By the mid-1990s the Panamanian government finally published a strategic plan how to develop the land surrounding the canal for economic gain. The plan was based on a government-commissioned study of how to use former U.S. military bases. The

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<sup>107</sup> "Data - GDP Growth (Annual %)," The World Bank, accessed January 7, 2014, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=5>; "Data – Unemployment, Total (% of Total Labor Force)," The World Bank, accessed January 7, 2014, <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?page=5>.

<sup>108</sup> Marlise Simons, "Canal Treaty Seen Leaving Political Vacuum in Panama," *Washington Post*, June 3, 1977, sec. General.

<sup>109</sup> Conniff, *Panama and the United States*, 164.

<sup>110</sup> Falcoff, *Panama's Canal*, 103.

<sup>111</sup> Conniff, *Panama and the United States*, 173.

<sup>112</sup> Falcoff, *Panama's Canal*, 103.

overarching goal of the government was to produce a national vision that all Panamanians would be proud of and able to appreciate the enormous resource they were about to inherit. Even though Panama had acquired several reverted properties since 1979, and many more Panamanians were learning about the canal and working for the Panama Canal Commission, the majority of Panamanians knew little about the Canal Zone other than what a national disgrace it had been while under the ownership of the northern superpower.<sup>113</sup>

The general objectives of the plan were: conducting a complete survey of the areas that would be returned to Panama; determining the best economic and social policies for sustained development; and understanding the physical environment surrounding the canal to identify further potential.<sup>114</sup> The Panamanian government knew too much time had been wasted since the Carter-Torrijos Treaty had been signed and endeavored to analyze all of the potential costs and benefits of the Canal and interoceanic area and determine what objectives would allow for demographic and economic growth of the region for the next 25 years.<sup>115</sup>

The Carter-Torrijos Treaty mandated all of the property within the Panama Canal Zone be turned over to Panama by the end of 1999, along with the Panama Canal. Although there were some ideas, the Panamanian government was not sure what to do with many of the U.S. military bases that needed to be incorporated into the economy, shown in Table 1 and Figures 1 and 2. The ARI had some catching up to do in order to develop the areas that had already reverted to Panama and plan for the remaining properties and President Perez Balladares, who took over in 1994 was inclined toward privatization. Amid great controversy, he privatized three container terminals (ports), Balboa on the Pacific coast, and Cristobal and Colon on the Atlantic coast in what were essentially sales to the highest bidder. Privatization in general was unpopular with the Panamanian people, who believed “their government—if not precisely the United

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<sup>113</sup> Reymundo Gurdíán Guerra, *Visión Nacional Sobre el Canal y Las Áreas Revertidas* (Panama: Editorial Universitaria Carlos Manuel Gasteazoro, 1999), 185.

<sup>114</sup> Ibid.

<sup>115</sup> Guerra, *Visión Nacional*, 186–222.

States—owed them a living.”<sup>116</sup> But it was also controversial in the United States. The American company Kansas City Southern Industries won the contract to rebuild a container-hauling railroad between Balboa and Cristobal, but U.S. companies lost their bids for two port concessions. The Hong-Kong based company Hutchinson Port Holdings (HPH) won contracts for the concessions of both Balboa and Colon container terminals, having outbid its American competitors by \$17 million. The United States government complained that Panama had been unfair and opaque in its contracting process, but Panama sustained its decision. And although there was initial resistance regarding the fact that a Chinese company would be involved with the ports, the United States finally conceded that there was no security reason to object to a Hong-Kong owned company holding the concessions to the ports.<sup>117</sup>

In addition to privatizing a railway and the ports to increase revenue and cut the state payroll, ARI leader Barletta “immediately embarked on an international tour to sell the notion that the reverted areas represented an exceptional opportunity for foreign investors.”<sup>118</sup> The ARI offered plans for reverted areas in the ports and port-related activities along the Panama Canal with opportunities in railway and other overland transport, high-tech facilities for cargo handling, and dry docks and shipyards for major repair and small vessel construction. There were offers to investors in drinking water distribution facilities, communications and power generation. For the former U.S. bases, the ARI also presented potential for tourism, eco-tourism, hotels, cruise passenger terminals, marinas, renovated recreation areas and golf courses. Investment in the Panama Canal Zone finally became a priority for the Panamanian Government.<sup>119</sup>

According to the transcript of an international investment forum in 1995 in which Barletta spoke to interested investors, Barletta laid out Panama’s specific plans and opportunities for the future of the Interoceanic Region. Highlights follow:

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<sup>116</sup> Falcoff, *Panama’s Canal*, 108.

<sup>117</sup> *Ibid.*, 108–10.

<sup>118</sup> *Ibid.*, 103.

<sup>119</sup> Juan Francisco Pardini, “The Canal Areas: A Unique Opportunity,” in *Investment Opportunities in the Panama Canal Area*, An International Investment Forum hosted by American Chamber of Commerce and Industry of Panama and Interoceanic Region Authority, Panama, November 15–16, 1995 [conference booklet], 3–4.

## **1. Maritime**

As of 1996, there were few services or local products for the 700,000 people, both ship workers and passengers, transiting the Panama Canal every year. The major reason for this was the poor state of Panamanian ports and the limited range of services being offered. Many studies have shown that Panama was a perfect location for container transshipment; containers could be dropped at a Panamanian port and moved overland or by smaller ships to its final destination. There are 13 ports in Panama and port development is high on the list of economic growth opportunities in Panama as well as associated services to provide to passengers of passing ships.

## **2. Industry**

Panama proposed outstanding opportunities for industry with the combination of improved ports, projected container transshipment and airport integration. Advantages of creating and investing in an industrial park in Panama included easy access to Latin America customers through the Colon Free Zone, easy credit from Panamanian banks, and a large bilingual work force. Fort Davis on the Atlantic side of the country had already been transformed into an industrial park and should be considered for further business and development.

## **3. Tourism**

Barletta believes Panama is the perfect location for tourism, expressing “With lush tropical forests and jungles, Spanish forts, a warm climate, beautiful beaches and one of the most interesting sights in Central America—the Panama Canal—Panama has the potential to be a top-ranked tourist destination.”<sup>120</sup> Plans have been completed to turn Fort Amador, which is made of three islands connected by a causeway, into a premier tourist destination. Included in those plans are major resort hotels, a golf course, swimming pools, shopping mall, and cruise ship pier. The major attraction, of course, will be the Panama Canal, of which the Pacific entrance is viewable from Fort Amador.

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<sup>120</sup> Barletta, “Investment Opportunities,” 11.

#### **4. Eco-Tourism**

Panama is home to approximately 300 species of birds, 1,000 species of orchids, lush tropical forests, beautiful lakes, exotic butterflies and howler monkeys. Much of this flora and fauna is contained within National Parks. Panama has some of the best biodiversity in the world, and it is a great place to study the environment. Fort Sherman on the Caribbean side of the country would be an appealing location for eco-tourism initiatives.

#### **5. City of Knowledge**

The City of Knowledge is located directly across from the Panama Canal in more than 200 buildings of what used to be Fort Clayton military base. Already its own international community, it was created for the purpose of business, academic, scientific, and humanistic collaboration. Its mission is to provide “an international platform for knowledge management to promote sustainable development and the competitive advantages of Panama.”<sup>121</sup> ARI promotes fantastic opportunities for non-profit and for-profit research and development centers in The City of Knowledge, similar to the existing Smithsonian Tropical Research Institute.<sup>122</sup>

It is evident that once the de facto military dictators were deposed of by 1990, the Panamanian government urgently began to make plans for its reverted areas. Although only half of the 20-year interim period between 1979 and the final turnover year of 1999 remained when the new officially elected democratic government was in place and the Panama Defense Force had been converted into National Police, the leaders made significant progress in their campaign for the future of the interoceanic region during the 1990s. Concurrently, the Panama Canal Commission was able to claim substantial success in its turnover process of the Panama Canal, which is the subject of the next section.

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<sup>121</sup> “The Foundation,” City of Knowledge Official Website, accessed January 15, 2014, <http://ciudadelsaber.org/en/foundation>.

<sup>122</sup> Barletta, “Investment Opportunities,” 10–12.

Base Name	Location	Size (Acres)	Original Military Use	Turnover Year	What was Planned
Fort Amador/Fort Grant	Pacific	345	U.S. army coastal defense	Fort Grant (Islands), 1979; Fort Amador, October 1996	Major tourism center; tourist complex decreed for Fort Grant in 1993
Quarry Heights	Pacific	134	Senior Command HQ; elevated views; close to Panama Canal HQ	January 1998	
Fort Clayton	Pacific	2,180	HQ U.S. Army South; army support battalion; protection of canal locks	November 1999	City of Knowledge
Albrook AFS	Pacific	769	Military airfield; hosted Panama Canal Air Force; air force senior HQ	Airfield and hangars, 1979; September 1997	Albrook Mall
Panama Air Depot	Pacific	Unk	Adjacent to Albrook AFS; air operations industrial area; storage	in stages 1979 to 1982	
Rodman NS (including Farfan Receiver Station and Arraijan Tank Farm)	Pacific	2,226	Hub for all naval activities; naval small craft training school; navy special warfare unit	April 1999	Privatization of container port
Howard AFB	Pacific	5,282	Air force wing; fighters, bombers and navy patrol craft; Air National Guard detachment; JIATF-S HQ for counter-narcotics	November 1999	Panama Pacifico Special Economic Area as multimodal transportation and business center and planned community (creation law passed in 2004)
Fort Kobbe	Pacific	Unk	Infantry battalion; engineer battalion; army stockpile storage; housing complex	November 1999	Panama Pacifico
Fort Sherman	Atlantic	23,000; mostly jungle	U.S. Army Coast Artillery Corps (1912-1953); Jungle Operations Training Center (1953-1999); Non-Commissioned Officers Academy	June 1999	Eco-tourism activities; cruise ship pier and tourist facilities
Fort Davis	Atlantic	4,075	Infantry base	September 1995	Industrial park complex; re-export center processing zones
Fort Gulick	Atlantic	344	Originally military hospital; then U.S. Army School of the Americas (Bldg 400); special forces group	Building 400 in 1984; 1995	Hotel at former School of Americas; residential development; eco-tourism businesses
Galeta Island	Atlantic	550	U.S. Naval Security Group Communications Center (cryptologic)	September 1999	Continued Smithsonian Tropical Research Institute marine investigation/education center
Coco Solo Naval Base	Atlantic	Unk	U.S. naval submarine base; naval air base for P-3 squadron	In stages 1979 to May 1992	
Semaphore Hill	Central	35	USAF long range radar (1965-1969); joint FAA air traffic control and PCC communications tower (1969-1988); counter-narcotics node for Caribbean Basin Radar Network (1988-1995)	November 1996	Canopy Tower eco-tourism

Table 1. Former United States military bases<sup>123</sup>

<sup>123</sup> William H. Ormsbee, "U.S. Military Bases in Panama," WHO's SCROLL, Jr., accessed January 31, 2014, [http://william\\_h\\_ormsbee.tripod.com/index.htm](http://william_h_ormsbee.tripod.com/index.htm).



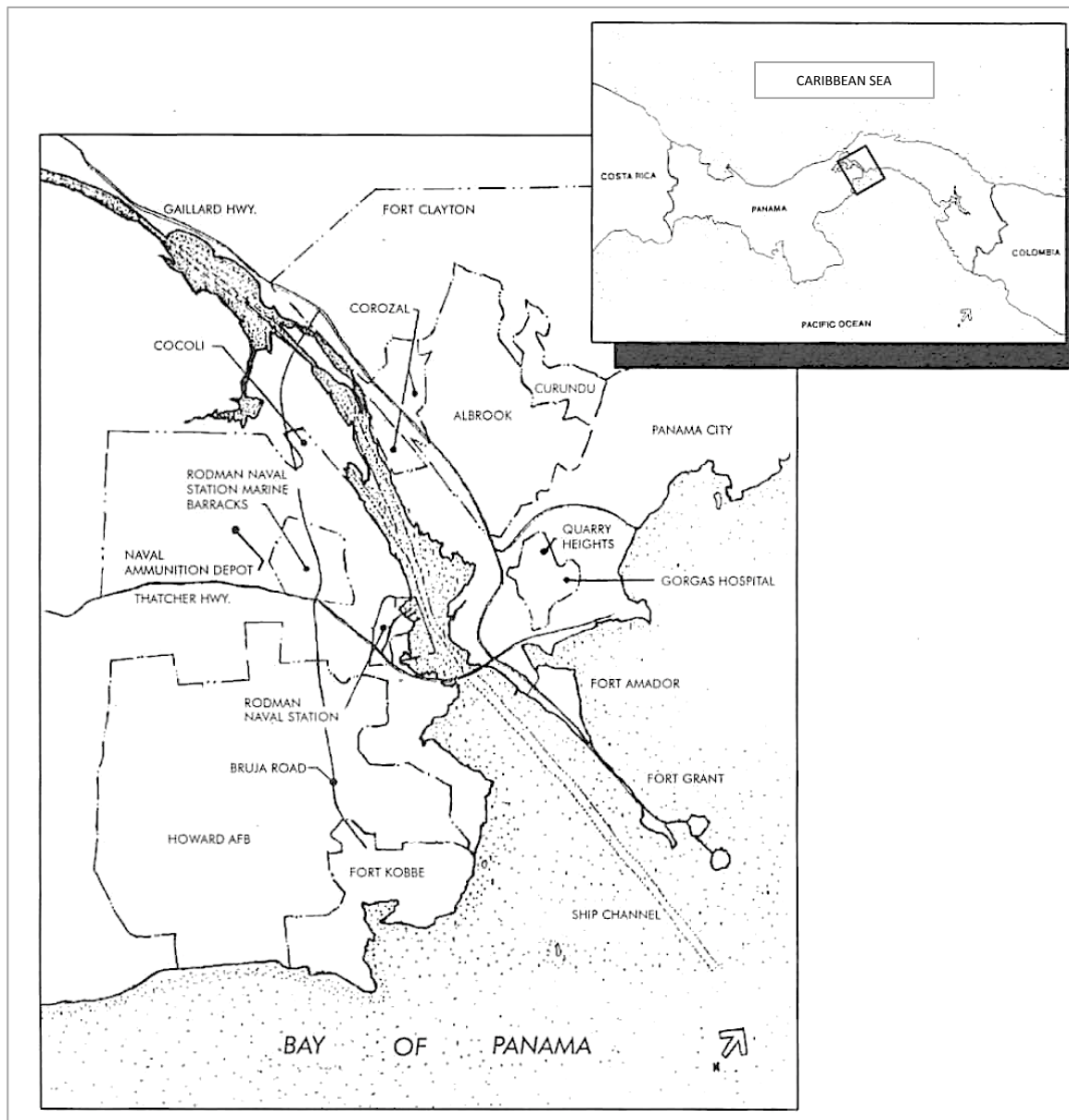


Figure 1. Map of U.S. military bases on Pacific side of Panama<sup>124</sup>

<sup>124</sup> Ibid.

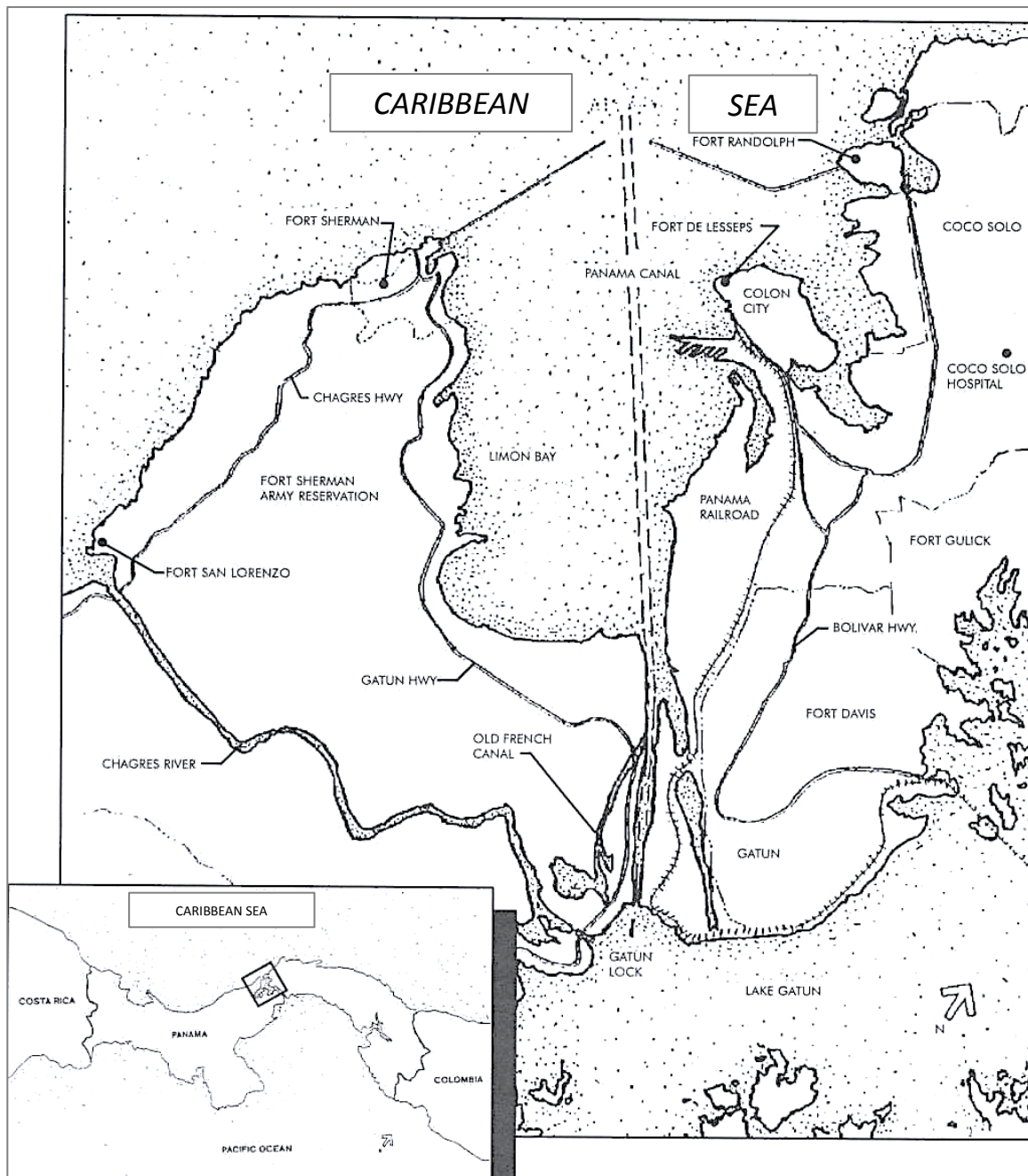


Figure 2. Map of U.S. military bases on Atlantic side of Panama<sup>125</sup>

<sup>125</sup> Ibid.

## E. THE PANAMA CANAL COMMISSION

The signing of the Carter-Torrijos Treaty was a symbolic win, and brought immediate political benefits to the government. But the ultimate payoff for Panama would not be realized for another 20 years. Authors Noel Maurer and Carlos Yu have argued that there were several overarching preconditions required for Panama to succeed:

It needed a government with strong incentives to refrain from the Panama Canal as patronage, and it needed managers to have strong incentives to be as professional as their American predecessors...the Panamanian administration of the canal needed to exceed the efficiency of the Americans. Unlike its past management, the canal's new Panamanian managers would need to run the operation with an eye toward profitability, rather than in the interest of a select group of privileged employees.<sup>126</sup>

On October 1, 1979, the Panama Canal Commission (PCC) was established in accordance with the Carter-Torrijos Treaty, taking over from the former Panama Canal Company, and assuming responsibility for “managing, operating and maintaining the Panama Canal for the benefit of all nations of the world through the end of the century.”<sup>127</sup> The organizationally, the PCC was part of the executive branch of United States government. Authority over the commission was exercised through the U.S. Secretary of Defense and the Secretary of the Army. The commission was presided over by a nine-member board of directors consisting of five Americans and four Panamanians. Through 1989, Americans held the position of administrator, while Panamanians held the deputy administrator post. In 1990, as mandated by the treaty, the roles were reversed with Panamanians taking the lead in the U.S. appointee switched to deputy administrator. The Panama Canal Commission was to remain in effect until the expiration of the treaty on December 31, 1999, upon which Panama would take full control of the Panama Canal. The enduring mission of the waterway was always “to provide reliable, cost-effective transit service while operating on a self-sustaining basis.”<sup>128</sup>

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<sup>126</sup> Maurer and Yu, *The Big Ditch*, 265.

<sup>127</sup> Panama Canal Commission, *A Decade of Progress in Canal Operations and Treaty Implementation* (Panama City: Panama Canal Commission, 1989), ii.

<sup>128</sup> Panama Canal Commission, *A Decade of Progress*, 1, 4.

Under American ownership, the canal had remained revenue neutral by policy. The tolls charged were just enough “to cover the canal’s costs and operating expenses of the Canal Zone government.”<sup>129</sup> The fixed toll rate in 1914 was between 75 cents and \$1.25 per ton, depending on the type of ship, and was applied equally to all nations’ ships.<sup>130</sup> In fact, the toll had never been increased until 1974. And even though inflation reduced per-ton tolls by half during the 1970s, the increasing size of cargo ships meant that per transit toll increased accordingly. By the time the Panama Canal Commission took over management of the canal, the venture had ceased to be of importance to the United States, and there were few incentives to either run it efficiently or to make the effort necessary to transform it into a profit-making enterprise.<sup>131</sup>

As soon as the Carter-Torrijos Treaty took effect, the commission boosted canal tolls by 29.3 percent. This gigantic rate hike was required “in order to pay, out of Commission earnings, over \$70 million dollars annually to the Government of Panama as a result of certain payment formulas agreed to in the treaty.”<sup>132</sup> With regard to the financial administration of the canal, oversight and fiscal operations were simplified by setting up a special fund in the U.S. Treasury in which to deposit funds, pay costs, and monitor all financial activity of the commission.<sup>133</sup> This protected the canal from Noriega’s corruption and mismanagement of funds, keeping the entity in U.S. hands, and out of the fray of narcotics trafficking and money laundering that was prevalent throughout the 1980s.

The years from 1980 to 1989 proved to be daunting for the commission, especially with an ever-increasing number of Panamax ships, which were specifically built to the maximum size capable of transiting the canal. Canal traffic and toll revenue alternately surged and declined throughout the decade. In 1982, Alaskan North Slope oil and U.S. grain and coal shipments dramatically increased canal business. But in 1983 and

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<sup>129</sup> Maurer and Yu, *The Big Ditch*, 92.

<sup>130</sup> *Ibid.*, 147.

<sup>131</sup> *Ibid.*, 251–52.

<sup>132</sup> Panama Canal Commission, *A Decade of Progress*, 18.

<sup>133</sup> *Ibid.*

1984, Alaskan oil was diverted through the new competing Trans-Panama oil pipeline built to transport oil across Panama, for re-loading onto tankers too large to transit the canal. At the same time, U.S. demand for coal declined, and combined with a worldwide economic recession, canal traffic plummeted. The oil pipeline alone affected a reduction in canal revenue by 15 percent and forced the PCC to raise toll rates again by March 1983. A few years later, the canal was in high demand again due to sharp increases in containerized cargo and automobile shipments, which by 1988 attributed to one-third of canal net tons and tolls revenue.<sup>134</sup> Once averaged over the decade, the PCC was able to continue operating the canal on a self-financing basis as was required by law. While there were deficits in some years due to declining business, capital investment and maintenance costs, they were offset by swings in traffic surges and toll increases. As shown in Table 2, from 1980 to 1989, the commission generated operating revenues roughly even with its expenses, totaling roughly \$4.1 billion each, representing a total net gain of close to \$50 million over ten years.<sup>135\*\*</sup>

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<sup>134</sup> Ibid., 7–8.

<sup>135</sup> Panama Canal Commission, *A Decade of Progress*, 22; \*\*The source table indicates net loss of (\$1,110). In verifying the math, the difference is actually a 10-year net gain of \$48,890.

	Total Operating <u>Revenues</u>	Total Operating <u>Expenses</u>	Net Income or <u>(Loss)</u>
FY 1980	\$369,409	\$366,710	\$2,699
FY 1981	\$388,026	\$338,943	(\$917)
FY 1982	\$431,984	\$430,688	\$1,296
FY 1983	\$393,957	\$398,090	(\$4,133)
FY 1984	\$404,415	\$397,578	\$6,837
FY 1985	\$406,723	\$405,604	\$1,119
FY 1986	\$424,301	\$422,288	\$2,013
FY 1987	\$436,135	\$436,725	(\$590)
FY 1988	\$449,409	\$451,227	(\$1,818)
FY 1989	\$435,739	\$443,355	(\$7,616)
<b>TOTAL</b>	<b>\$4,140,098</b>	<b>\$4,091,208</b>	<b>\$48,890</b>

Table 2. Panama Canal Commission comparative operating results (in thousands)  
FY 1980–1989<sup>136</sup>

In order to meet its challenges, the commission increased capital investment, instituted operational improvements and enhanced maintenance programs. Some important investments were the installation of high mast lighting at all of the locks, enabling extended hours of operations and improving night visibility; the acquisition of 15 new locomotives to pull vessels through the canal, effectively expanding its fleet to 80; the procurement of high speed launches, which would serve as rapid and secure

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<sup>136</sup> Ibid.

transportation for pilots and other key personnel to get to work stations along the canal; and completion of dredging and widening projects throughout the canal for improved navigation and maneuverability.<sup>137</sup>

In addition to capital investment, the PCC implemented operational and safety related improvements. Most importantly, the PCC installed a state-of-the-art computerized traffic management system in the Marine Traffic Control Center, which provided more efficient coordination of vessel movements during canal transit and enhanced safety. Another unique upgrade for operations was the implementation of a transit reservation system, which allowed for customers to pay an extra fee in order to schedule and guarantee a transit time. The fees generated by the reservations were used for funding capital investments. Other safety improvements in the 1980s included streamlined accident investigation procedures, buoy conversion to the international convention, new firefighting systems at all locks, and new weather monitoring and reservoir equipment.<sup>138</sup>

One additional safety program implemented was landslide control measures. In October 1986, Panama experienced a major landslide in the Gaillard Cut (also called Culebra Cut), dumping about one half million cubic yards of earth material and debris into the Panama Canal, causing a decrease in navigable width of the channel. Panama undertook immediate measures to remove the debris and dredge the canal, instituting temporary cautionary transit procedures in order to keep the channel safely operating while cleanup was ongoing. The PCC implemented landslide control measures to help stabilize the canal banks, including preventative excavation, drainage improvements and reforestation to control erosion. Many of Panama's customers, as well as a temporary multi-national advisory board commended the nation of Panama and the PCC for its quick and efficient handling of the crisis.<sup>139</sup>

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<sup>137</sup> Panama Canal Commission, *A Decade of Progress*, 11–13.

<sup>138</sup> *Ibid.*, 13–15.

<sup>139</sup> *Ibid.*, 16.

The most important improvement of the 1980s was the prioritization of maintenance, which was and still is the “cornerstone of the day-to-day operation of the Panama Canal.”<sup>140</sup> This agenda encompassed annual locks overhaul, rehabilitation programs for towing locomotives and towing tracks, refurbishment of floodgates at dams and spillways, and maintenance of power and water systems.<sup>141</sup> Without constant attention and preservation of the mechanical components of the Panama Canal, it would never be a viable enterprise on which to stake Panama’s economic future.

Besides operations of the canal, the PCC had to be concerned with employment and training in accordance with the Canal Treaty, which called for increasing the Panamanian participation at all levels of the commission. By 1989, 85 percent of the canal work force was Panamanian (Table 3), especially within higher skilled areas of operations (Table 4). Special technological and professional training programs were implemented in order for Panamanians to become qualified candidates for open positions within the commission.<sup>142</sup>

	U.S.	Panamanian	Third Country National	TOTAL	% Panamanian
September 1979 (Pre-Treaty).....	3,095	8,432	612	12,139	69.5
October 1979.....	2,105	5,521	350	7,976	69.2
October 1981.....	1,865	5,765	377	7,907	72.9
October 1983.....	1,651	5,922	228	7,801	75.9
October 1985.....	1,353	5,992	181	7,526	79.6
October 1987.....	1,169	6,269	141	7,579	82.7
October 1989.....	993	6,513	96	7,602	85.7

Table 3. Panama Canal Commission permanent work force<sup>143</sup>

<sup>140</sup> Ibid., 15.

<sup>141</sup> Ibid., 15–16.

<sup>142</sup> Ibid., 2.

<sup>143</sup> Ibid., 27.



	October 1979		September 1989	
	Number of Panamanians	Percentage (%)	Number of Panamanians	Percentage (%)
Skilled Crafts.....	568	58.7	860	84.9
Professional and Managerial.....	44	13.8	143	42.6
Floating Equipment.....	39	20.0	187	70.6
Power Group.....	9	23.0	30	68.2
Canal Pilots.....	4	1.7	61	26.8
Total.....	664	38.1	1,281	67.9

Table 4. Panama Canal Commission key occupations<sup>144</sup>

From the time the Carter-Torrijos treaty went into effect, the Panamanians realized that there would be no beneficial economic progress resulting from the Panama Canal unless it was somehow protected from political interference. Beginning in 1989 with President Guillermo Endara, the Panamanian government took steps to help ensure the depoliticization of the canal. These were connected to more general measures to help restore Panama's damaged political institutions. Endara abolished the Panamanian Defense Forces, Noriega's primary constituency, and transformed that military into a national police force. He also adjusted the electoral code "to give the electoral courts much greater autonomy, in order to ensure fairer electoral counts than had occurred in the recent past."<sup>145</sup>

Probably the most important move was the establishment of the Panama Canal Authority (ACP) in 1994, which was created to take over from the Panama Canal Commission as the official Panamanian administrative agency at the end of 1999. Even though the joint PCC was the agency in charge of the canal until the end of the century, the ACP was appointed to mirror the organization and learn how to govern the canal in the future. The Organic Law of June 11, 1997, was passed to further solidify the ACP's organization, operation and modernization. Because the agency was so important to the future of the canal and the future of Panama's economic stability, it was established as

<sup>144</sup> Ibid., 28.

<sup>145</sup> Maurer and Yu, *The Big Ditch*, 311.

“an autonomous agency with independent budget authority.”<sup>146</sup> Further, the Organic Law stipulated that the Panama Canal Commission’s Office of Inspector General would be carried over to the ACP to conduct audits and investigations designed to detect and prevent fraud, waste, abuse and mismanagement.<sup>147</sup> According to the official history of the ACP:

The Panama Canal constitutes an inalienable patrimony of the Republic of Panama; therefore, it may not be sold, assigned, mortgaged, or otherwise encumbered or transferred. The legal framework of the Panama Canal Authority has the fundamental objective of preserving the conditions for the Canal to always remain an enterprise for the peaceful and uninterrupted service of the maritime community, international trade, and the Republic of Panama.<sup>148</sup>

Though the 11-member board of the ACP appointed by President Balladares initially caused some controversy, highly qualified personnel were established in the ranks, many with solid experience of having served on the PCC board. Additionally, a permanent international advisory board was formed to provide valuable multinational recommendations and feedback for canal policymaking.<sup>149</sup>

In September 1990, Gilberto Guardia became the first Panamanian to be the Administrator of the Panama Canal Commission.<sup>150</sup> The PCC continued its full-court press of operational improvements and enhanced maintenance into the 1990s. The greatest challenge was the increasing size of the ships transiting the canal. Even though Panamax ships could fit through the canal locks, their transits incurred additional costs. They took longer to transit the locks and required more locomotives to pull them through. They also needed up to 10 tugboats and two or three channel pilots to assist with navigation through the narrower parts of the channel. Beginning in 1992, the PCC “spent

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<sup>146</sup> “ACP Overview,” Panama Canal Authority, accessed January 31, 2014, <http://www.pancanal.com/eng/acp/acp-overview.html>

<sup>147</sup> Panama Canal Commission Report Supplement, December 1999 (Panama Canal Commission), 33, digitized by Archive.Org, <https://archive.org/download/annua99unit/annua99unit.pdf>

<sup>148</sup> “ACP Overview,” Panama Canal Authority website.

<sup>149</sup> Charles Gillespie et al. “Panama Canal Transition: The Final Implementation,” (policy paper, Atlantic Council, July 1999), 6.

<sup>150</sup> Maurer and Yu, *The Big Ditch*, 299.

\$2 billion on capital improvements intended to deal with the needs of larger ships.”<sup>151</sup> Specifically the Commission widened the Gaillard Cut in 1993 and again in 1997, which eliminated bottlenecks of large ships waiting to pass. The PCC also deepened Lake Gatun by three feet, to ease of navigation for heavier ships with deeper drafts. At the locks, the PCC replaced the electric lock systems with hydraulic systems. Additionally, the reservation system that had been instituted in 1984 was revamped for greater efficiency. By 2000, 40 percent of the vessels transiting the canal had reservations. A reservation decreased the average transit time from 40 hours to 17.2 hours.<sup>152</sup>

The PCC had to increase the toll rates in 1992, and then again in a two-step hike 1997 and 1998 to cover expenditures, as required by the Carter-Torrijos Treaty. Investments in the capital improvements of canal widening and dredging as well other maintenance projects were necessary to turn the canal over to Panama in excellent condition and efficiently handle the forecasted increase in future shipping growth.<sup>153</sup>

At the end of 1999, Panamanians constituted 96.7 percent of the permanent workforce<sup>154</sup> and Panamanians filled over 70 percent of the positions in every job category.<sup>155</sup> It remained important for the PCC to retain a few Americans and other key foreign nationals “to ensure competition with international standards for key jobs.”<sup>156</sup> A main stimulus for Panamanian workforce growth was the PCC’s Panamanian Preference Program, established in accordance with Panama’s Organic Law of 1997, which stipulated that Panamanians would have preference for hiring over foreigners, and that foreigners would only be hired if all means for employing a suitably qualified Panamanian had been exhausted. In the event only foreigners applied, preference would

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<sup>151</sup> Maurer and Yu, *The Big Ditch*, 309.

<sup>152</sup> *Ibid.*, 309–10.

<sup>153</sup> *Annual Authorization of the Panama Canal Commission and the Annual Authorization for the United States Maritime Administration: Hearing before the Special Oversight Panel on the Merchant Marine, United States House of Representatives Committee on National Security*, 105th Cong. 1 (1997), 81–82, [http://commdocs.house.gov/committees/security/has078220.000/has078220\\_0f.htm](http://commdocs.house.gov/committees/security/has078220.000/has078220_0f.htm)

<sup>154</sup> Panama Canal Commission Report Supplement, 33.

<sup>155</sup> Gillespie et al. “Panama Canal Transition,” 4.

<sup>156</sup> *Ibid.*

be given to those married to a Panamanian or those who had resided in Panama for more than 10 years.<sup>157</sup>

Another catalyst for the growth of the canal's Panamanian population was the PCC's Training and Development Department. The primary responsibilities of this important organization included:

Coordinating, evaluating and providing employee development programs; training pilots, towboat masters and other maritime field employees; producing new craftsmen for the institution; ensuring state-of-the-art technical training for onboard journeymen; operating and administering training facilities with appropriate equipment; evaluating and promoting the use of new technology for training, and providing advisory services to management.<sup>158</sup>

The PCC's Employee and Management Development Branch's mission was implementing employee development programs for all levels of employees through internal programs and contracted instructors. Opportunities for off-isthmus courses, conferences and seminars were also made available, as well as tuition reimbursement for college courses relating to employees' missions. Additionally, the department implemented a Managerial Candidate Development Opportunity Program "to provide management officials with a recruitment source for managerial positions subject to merit promotion procedures."<sup>159</sup>

By 1999, the United States was ready to turn over a well-conditioned and well-functioning canal to Panama. In contrast to the neglect suffered by the reverted properties in the interoceanic area, the Panama Canal Commission did not waste the turnover years from 1979 to 1999. Panama was on its way to meeting the aforementioned preconditions of alleviating the canal from political patronage, under professional Panamanian managers and with an "eye toward profitability." According to Maurer and Yu:

The Panama Canal underwent a management revolution after 1990. Once the political conditions were met to prevent the canal from becoming a source of elite patronage—first with the ouster of Noriega, then with the

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<sup>157</sup> Law 19 of 1997, June 11, 1997, "Whereby the Panama Canal Authority Is Organized," Panama Legislative Assembly, Panama Canal Authority, <http://www.pancanal.com/eng/legal/law/law.pdf>.

<sup>158</sup> Panama Canal Commission Report Supplement, 35.

<sup>159</sup> Ibid.

1994 amendment to the Panamanian constitution, and finally with the emergence of a voter-enforced norm of keeping a “hands-off” attitude of the canal—the Panama Canal could operate [beginning in 2000] as a commercial enterprise free of adverse political interference.<sup>160</sup>

The Panama Canal Commission had achieved excellence in day-to-day operations, sound strategic planning, and effective management over all of the transition process

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<sup>160</sup> Maurer and Yu, *The Big Ditch*, 311.

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## **V. SOVEREIGNTY AT LAST (2000–2012)**

### **A. INTRODUCTION**

The aim of this thesis has been to evaluate the course of events that have followed Panama's acquisition of sovereignty over the Panama Canal and former Canal Zone at the end of 1999, with particular reference to the way these enterprises have changed the nation of Panama. This chapter will consider what has been achieved over the last decade with regard to the former U.S. military bases that passed into Panamanian hands as part of the transfer of sovereignty. The discussion that follows does not touch on every property that Panama acquired, but highlights the most important, in order to illustrate the wide range of options that Panama has explored for utilizing its regained territory. This chapter will also illuminate Panama's handling of the canal since taking full control in 2000, covering operations, the new canal expansion, and briefly, the canal's competitiveness.

### **B. CURRENT DISPOSITION OF FORMER U.S. MILITARY BASES**

#### **1. Fort Davis**

Fort Davis, located on the Atlantic side of Panama near the Gatun Locks, reverted to Panama in 1995. The base, consisting of just over 4,000 acres and 570 facilities, was originally built in 1920 and expanded in 1939. It was the headquarters for the U.S. Army's 14<sup>th</sup> Infantry Regiment until 1956 and then became home for an infantry battalion and a Special Forces group. Since receiving the base from the United States, Panamanians have converted much of it into residential areas with private housing.<sup>161</sup>

There are two major business initiatives at Fort Davis. One is a premier international customer contact (call) center. The other is an export "Free Zone," which affords a variety of tax and regulatory benefits to companies eligible to operate there. Influent, an Ohio-based customer contact (call center) company, constructed its new 70,000 square foot facility on Fort Davis in October 2004. The company provides

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<sup>161</sup> William H. Ormsbee, "Bases-Summary," WHO's SCROLL, accessed February 24, 2014, [http://members.tripod.com/william\\_h\\_ormsbee/bases\\_summ\\_p04.htm](http://members.tripod.com/william_h_ormsbee/bases_summ_p04.htm).

services to Fortune 500 companies as “a leading provider of outsourced customer contact solutions with offices in the U.S, Philippines and Panama.” In addition to the existing robust telecommunications infrastructure, Influent chose Panama based “on workforce considerations and ease of travel from the U.S. to Panama.” In 2006, Direct Marketing Association, a leading trade association for businesses and non-profit organizations, honored the Panama call center as a top-notch facility. Influent has benefitted from the bilingual English-Spanish capabilities of Panamanian employees to capitalize on Hispanic markets for its clients.<sup>162</sup>

The Davis Free Zone, the second major business initiative at Fort Davis, is one of ten such zones located within the country and they are engines of economic growth. The zones were established for the “operation of companies that contribute to the country’s development, job creation, the inclusion into the global economy of goods and services through the promotion of investment opportunities, and the economic, scientific, technological, cultural, educational and social growth.”<sup>163</sup> Only certain types of companies may obtain licenses from the Ministry of Commerce and Industries to operate in one of the 10 Free Zones in Panama. These include manufacturing, high-tech, logistics, environmental services, specialized health services, education and research, and services companies. As of April 2013, there were six manufacturing businesses operating in the Fort Davis Free Zone.<sup>164</sup>

In addition to the international call center and the Free Zone, Fort Davis is home to the Colon campus of the respected Universidad Tecnológica de Panamá. The institution is the second largest university in Panama with 20,000 students attending seven branch campuses. The Colon campus was relocated from the Coco Solo area to Fort Davis in 1995 just after it reverted. The university remodeled three former base buildings to utilize for classrooms, laboratories, administrative offices and an educational

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<sup>162</sup> “Influent’s Colon, Panama Contact Center Honored as a ‘Best In Class’ Facility by the Direct Marketing Association’s Teleservices Council,” PCCW Teleservices, June 9, 2006, <http://www.pccwteleservices.com/>; “About DMA Choice,” Direct Marketing Association, accessed February 25, 2014, [https://www.dmachoice.org/static/about\\_dma.php](https://www.dmachoice.org/static/about_dma.php).

<sup>163</sup> “Free Zones,” Georgia Tech Logistics Innovation & Research Center Panama City, Panama, accessed February 25, 2014, <http://logistics.gatech.pa/en/assets/special-economic-zones/free-zones>.

<sup>164</sup> Ibid.



industrial plant. The Colon campus prides itself on being a pioneer in the development of the reverted areas, and on the promotion of education and culture in an area that was traditionally associated with the military complex of the United States. Both undergraduate and graduate studies are offered at the Colon campus in the technical fields of civil engineering, electrical engineering, mechanical engineering, industrial deep water systems, computer science and technology.<sup>165</sup>

## **2. Fort Gulick**

Fort Gulick, on the western edge of Lake Gatun, was constructed in 1943 to accommodate the increasing number of U.S. military troops during WWII. A School of the Americas was established on the base in 1946. In 1963, it became the infamous U.S. Army School of the Americas, sometimes labeled the “school for dictators” because of the many Latin American military rulers who had attended throughout the 1960s and 1970s, to include both Panamanian Generals Omar Torrijos and Manuel Noriega. A number of graduates from El Salvador, Colombia, Honduras, and Guatemala were later accused of or indicted on charges of human rights abuses, including torture and execution, allegedly using techniques learned from the School of the Americas. The United States funded the school to “provide principal training elements—joint and combined operations, special operations and civil military operations, noncommissioned officer professional development and resource management,” to Latin American military personnel.<sup>166</sup> In accordance with the Carter-Torrijos Treaty, the school was officially closed in December 1984 and that section of Fort Gulick was transferred to Panama and renamed Fuerte Espinar. The remainder of the Fort Gulick reverted to Panama in September 1995.<sup>167</sup>

With the exception of the former School of the Americas, most of the development on Fort Gulick has been residential. That section of the base that housed the

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<sup>165</sup> “Antecedentes,” Universidad Tecnológica de Panama Centro Regional de Colon, accessed February 25, 2014, <http://www.co.utp.ac.pa/antecedentes>.

<sup>166</sup> Richard F. Grimmett and Mark P. Sullivan, *US Army School of the Americas: Background and Congressional Concerns*, CRS Report RL30532 (Washington, DC: Library of Congress, Congressional Research Service, April 16, 2001).

<sup>167</sup> William H. Ormsbee, “Bases-Summary.”

school was purchased by a well-known Barcelona-based company, Meliá Hotels International, and transformed into a five-star resort, the Hotel Meliá Panama Canal (see Figure 2). It opened in 2006. The luxury 285-room hotel is renowned for its dazzling swimming pool and jungle-side location, just ten minutes away from the Colon Free Zone.<sup>168</sup> Other sections of Fort Gulick have been turned into tidy neighborhoods. Former military housing has been generously refurbished into single and multi-family housing, the majority purchased by upper-middle income Panamanians.<sup>169</sup>



Figure 3. Hotel Meliá Panama Canal at former U.S. military base Fort Gulick<sup>170</sup>

### 3. Fort Sherman

Fort Sherman is a former U.S. military base that encompasses 23,000 acres of jungle interspersed with rolling hills, streams, and swamps. It is located on Panama's Atlantic/Caribbean coast and borders the Chagres River on its south side. It was originally built as a coastal artillery site, but was transformed into the U.S. Army's Jungle Operations Training Center in 1953 containing a jungle land navigation course, combat

<sup>168</sup>J.A. Middlebrooks, "Visit the Panama Canal with an All-Inclusive Vacation at the Meliá Panama Canal Resort," Yahoo Voices, January 20, 2011, <http://voices.yahoo.com/visit-panama-canal-all-inclusive-vacation-7646866.html>; "Meliá Panamá Canal," Melia.com, accessed February 24, 2014, <http://www.melia.com/en/hotels/panama/colon/melia-panama-canal/home.htm>.

<sup>169</sup> "America's Cold War Legacy in Central America (Panama Part I)," The Frieden Trails, December 30, 2008, <http://ac-frieden.travellerspoint.com/21/>.

<sup>170</sup> "Meliá Panamá Canal"; "Hotel-Melia Canal Panama," Panama Travel, accessed February 28, 2014, [http://www.panamatoptravel.com/en/ficha\\_hot.php?idhotel=4](http://www.panamatoptravel.com/en/ficha_hot.php?idhotel=4).

maneuver lanes, helicopter landing zones, a drop zone, small arms ranges, as well as barracks, administrative and classroom training facilities. The U.S. Army utilized Fort Sherman for jungle warfare training until it was turned over to Panama in June 1999. At that time the Panamanians planned to turn the property into an eco-tourism complex that would benefit the economy, while protecting the lush tropical environment and biodiversity within the area.<sup>171</sup>

Even though Panama planned to develop Fort Sherman as a prime location for eco-tourism, the base remains largely undeveloped today, vacant and deteriorating. Its single success story so far is the Shelter Bay Marina, which opened in 2005 (see Figure 4). A full-service base for yacht cruising, the Shelter Bay Marina receives many accolades from visitor's and customers. The marina, which is located at the Caribbean entrance to the Panama Canal provides secure wave, wake and storm protection for yachts cruising through the Caribbean or preparing to transit the canal. The marina offers haul-out, dry storage and maintenance services, as well as floating docks, electricity and free potable water for boats, and laundry facilities, swimming pool and restaurant for passengers. The complex also boasts a highly recommended hotel that overlooks the marina.<sup>172</sup>

In February 2010, a Spanish business development company, C4T, received a contract from the Panamanian government's Ministry of Economy and Finance to conduct a Master Planning and Feasibility Study for tourism development at Fort Sherman. The company was asked to provide a plan for attracting tourism business that would be "respectful towards both the environment and local history and identity," and include "a job creating project [to become] a major repositioning factor for the District of Colon." C4T was also challenged with suggesting projects that were balanced in costs for development investment versus expected profitability.<sup>173</sup> The government's initial goal

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<sup>171</sup> "History of Fort Sherman," Jungle Fighter, accessed February 21, 2014, <http://junglefighter.panamanow.net/html/history.htm>.

<sup>172</sup> "Welcome to Shelter Bay Marina!" Shelter Bay Marina, accessed February 21, 2014, <http://www.shelterbaymarina.com>.

<sup>173</sup> "Projects: Sherman Area, Colon," C4T Tourism Business & Planning, accessed February 21, 2013, [http://www.c4tourism.com/quienes\\_confia\\_en.php](http://www.c4tourism.com/quienes_confia_en.php).

was to construct a 200-room hotel and golf course as the starting point of future tourism development that would increase the economic expansion in the Colon area (which the government admitted was behind in development in comparison to other regions of Panama). There was great hope for a plan based on area resources such as beaches, a marina, an airport, and the proximity to Fort San Lorenzo, one of the oldest colonial Spanish fortresses in the Americas.<sup>174</sup>

By December 2010, C4T presented a proposal for the development of Fort Sherman at a cost of US\$180 million with projected revenue of US\$250 million to \$300 million within the first five years, and the creation of thousands of permanent jobs. The plan would require improvements to communications and transportation capabilities to attract commerce and make business more effective. Infrastructure upgrades would include a tunnel or bridge crossing the Limon Bay between Fort Sherman and the city of Colon, a new airport, the repositioning of international cruise ports and better roads to Panama City. The plan also called for refurbishment of Fort San Lorenzo as a main tourist attraction. The proposal was viewed as being “ecologically friendly and culturally sensitive.”<sup>175</sup>

As of January 2012, however, there had been little movement in the development of Fort Sherman and the Panamanian government began a new initiative to attract tourism investment. The Administrative Unit of Reverted Properties (UABR) within the Ministry of the Economy and Finance, opened the bidding for investment opportunities based on the 2010 C4T proposal, to include “six eco-tourism hotels, marinas for yachts, cultural centers, eight [housing] developments and entertainment centers.” The initiative called for up to 200 tour operators from different tourism specialties and 20 investors.<sup>176</sup>

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<sup>174</sup> “Panama’s Tourism Development Plan of a Former Military Base,” C4T Tourism Business & Planning, accessed February 21, 2014, [http://www.c4tourism.com/c4tonline\\_detalle\\_en.php?noticia\\_id=10](http://www.c4tourism.com/c4tonline_detalle_en.php?noticia_id=10).

<sup>175</sup> “Concluyen El Plan de Desarrollo Turistico de Una Antigua Base de EE.UU. En Panama,” *Aguasdigital.com*, September 17, 2010, <http://www.aguasdigital.com>; “Preven Una Inversion Millonaria Para Un Proyecto Turistico En Una Antigua Base de EE.UU. in Panama,” EFE Agencia, accessed February 21, 2014, <http://www.efe.com/efe/noticias/usa/5>.

<sup>176</sup> “Panama Lanza Ofensiva de Desarrollo Turistico En El Caribe Y El Pacifico,” *Prensa.com*, January 23, 2012, [http://www.c4tourism.com/c4tonline\\_detalle.php?noticia\\_id=68](http://www.c4tourism.com/c4tonline_detalle.php?noticia_id=68).

Visitors to the Fort Sherman area, mainly from the Shelter Bay Marina, reported in 2013 that the area was still abandoned, with former U.S. military structures in ruin and overgrown by the jungle. Parts of the base and the airfield adjacent to the marina has been most recently availed by U.S. Southern Command military forces to conduct a disaster relief training exercise called Beyond the Horizon.<sup>177</sup>



Figure 4. Shelter Bay Marina at former U.S. military base Fort Sherman<sup>178</sup>

#### **4. Semaphore Hill**

A fine example of Panama's ambition for eco-tourism is the Canopy Tower nature observatory on a former U.S. military property called Semaphore Hill. The property of 35 acres is located within the boundaries of the federally protected Panamanian rainforest of Soberania National Park, which was founded in 1980 along the western shoreline of the Panama Canal. The Canopy Tower dome structure was built in 1965 to house a large and

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<sup>177</sup> "Panama-Jungles and Ruins-Fort Sherman and Shelter Bay Marina," Impi, May 5, 2013, <http://cat-imp-i.blogspot.com/2013/05/panama-jungles-and-ruins-fort-sherman.html>; "U.S. Southern Command Returns to Fort Sherman," The Panama Digest, April 16, 2013, <http://www.thepanamadigest.com/2013/04/u-s-southern-command-returns-to-fort-sherman/>.

<sup>178</sup> "Shelter Bay Marina, Panama," MatchShip, accessed February 28, 2014, <http://www.matchship.com/shelter-bay-marina-panama/>.

powerful U.S. Air Force radar for the defense of Panama, and was later activated as part of the Caribbean Basin Radar Network in 1988, which remained in operation until 1995. The property then sat locked up and vacant for over a year (see Figure 5). In November 1996, Semaphore Hill officially reverted to Panama, and the following year the government signed a long-term contract “to transform the site into a center for neotropical-rainforest observation and ecotourism,” by agreeing to founder Raul Arias de Para’s proposal to turn the property and radar tower into a bird-watching hotel.<sup>179</sup>

In 1999, Canopy Tower opened its doors to the public as part of Arias’ Canopy Family of eco-tourism destinations, which also included Canopy Lodge, Canopy Camp, Canopy Bed and Breakfast, and Canopy Adventure, each located in different areas of Panama. The company’s mission is “to share the nature, history and culture of the Republic of Panama with passion and enthusiasm, focused on customer satisfaction and guided by the principles of conservation and social responsibility.”<sup>180</sup> Because it puts observers at eye-level with tropical rainforest birds, Canopy Tower has become world-renowned as a premier bird-watching destination. In keeping with its commitment to live sustainably, not only did the Canopy Family reuse the radar dome and building as its aviary platform, many of the interior furnishings were salvaged from other former U.S. installations. The Canopy Family has received many accolades over the years. Most recently Tripadvisor awarded Canopy Tower its prestigious 2013 Certificate of Excellence, for a second year in a row. It has also been highlighted in *Newsweek*, *The New York Times*, *National Geographic*, *Los Angeles Times*, and numerous other bird enthusiast and wildlife books and magazines.<sup>181</sup>

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<sup>179</sup> “Welcome to the Canopy Tower,” Canopy Family, accessed February 24, 2014, <http://www.canopytower.com/canopy-tower>.

<sup>180</sup> Ibid.

<sup>181</sup> Ibid.





Figure 5. Canopy Tower at former U.S. military property Semaphore Hill<sup>182</sup>

## 5. Fort Amador

Fort Amador, located on the Pacific side of Panama, was originally a section of the Panama Bay known as the Balboa Dump in the early 1900s. As land was excavated out of the Culebra Cut for construction of the Panama Canal, the dirt was dumped into the bay close to the canal, which created a man-made landmass. In 1908, U.S. military leaders decided to fortify the Panama Canal with large artillery pieces and chose Balboa Dump to build a defense site for the Pacific entrance of the canal. Additionally, the United States chose to build a dike in order to connect the new land with the nearby bay islands of Naos, Perico, Culebra, and Flamenco to become an interconnected military base to be utilized by both the United States Navy and Army (see Figure 6). The entire project was completed by the official opening of the canal in 1914, and constituted

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<sup>182</sup> Ibid.

defense sites at both mainland Fort Amador and the islands of Fort Grant. The breakwater formed by the dike also provided protection of the canal's entrance from destruction caused by tidal currents carrying silt.<sup>183</sup>

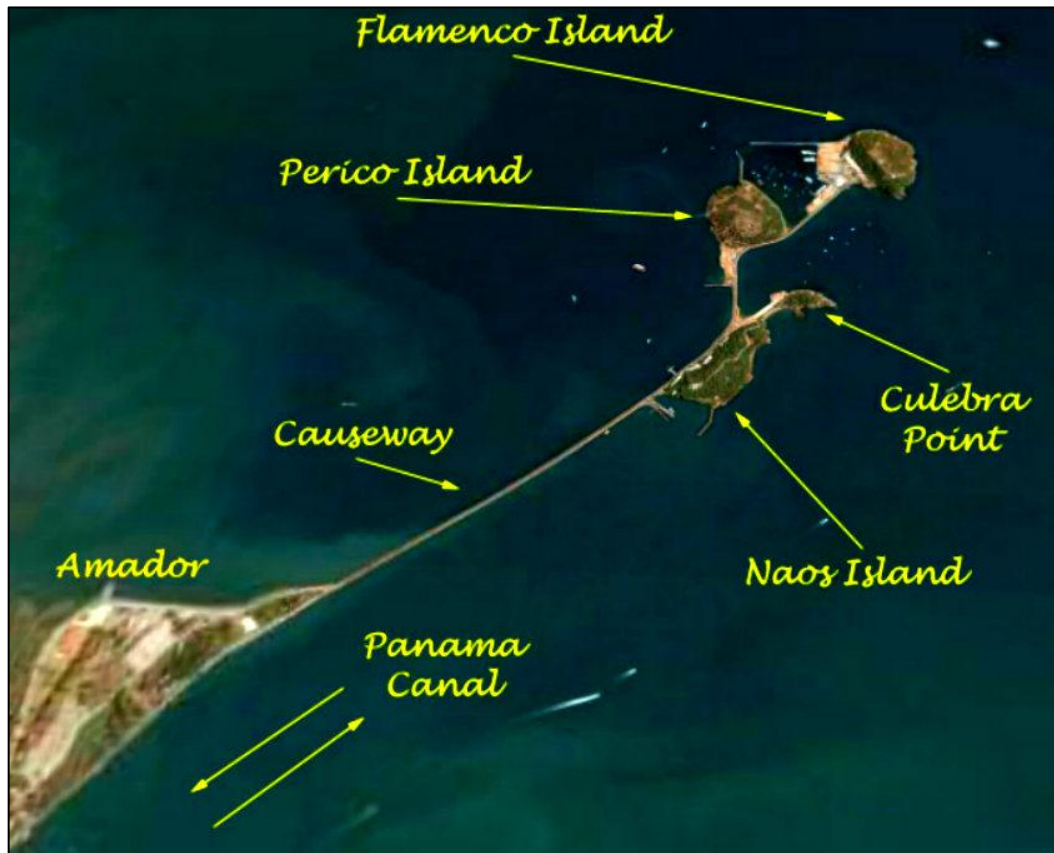


Figure 6. Mainland and islands of former U.S. military base Fort Amador<sup>184</sup>

Fort Amador was reverted to Panama's Interoceanic Regional Authority in October 1996. According to the *Panama Business Law Handbook*, the Legislative Assembly passed a General Use Plan in 1997 for the development of the reverted areas, of which tourism was a primary element. As previously noted in this thesis, the director

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<sup>183</sup> Suzanne P. Johnson et al., "A History of Fort Amador and Fort Grant - The Former Panama Canal Zone, Republic of Panama," 6–8, accessed February 21, 2014, <http://gozonian.org/2006data/2006hist/FortAmadorHistory.doc>.

<sup>184</sup> "The Causeway - Pacific Entrance to the Panama Canal," Oops! Living Without Permission, accessed February 28, 2014, <http://www.livingwithoutpermission.com/travel/the-causeway-and-the-causeway-islands-panama/>.



of the Interoceanic Region Authority, Nicolas Barletta touted plans for Amador to become a major tourist destination. The handbook reveals “a Korean/American consortium signed a deal with the [Panamanian] Government to invest nearly \$400 million in hotels, a yacht club, a cruise ship landing, a golf course, an aquarium center, etc.”<sup>185</sup>

By 2013, much of Panama’s plan for Fort Amador has come to fruition. It has become a regular port call for the Holland America cruise line, where ships anchor out and ferry passengers to Flamenco Island.<sup>186</sup> There is a marina and a yacht club, a conference center, hotels, restaurants, and a duty-free shop. The former dike has been upgraded to a 3.7-mile long two-lane causeway allowing tourists to drive from the mainland to the islands.<sup>187</sup> A Panamanian tourist website describes the Amador Causeway as “bustling with tourists taking in the spectacular views of Panama City. There are people watching as ships enter the passage to the Panama Canal, locals going to dinner, families taking a stroll along the sidewalk, athletes exercising, sailors coming in off the ships, travelers heading to the local islands off the coast...” (Figure 7).<sup>188</sup>

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<sup>185</sup> Ibp Usa, *Panama: Business Law Handbook*, 3rd edition (Washington, DC: International Business Publications, 2012), 80.

<sup>186</sup> “Holland America Line to Hold 28 Voyages of Panama Canal,” Highbeam Business, accessed February 21, 2014, <http://business.highbeam.com/165048/article-1P1-217630145/holland-america-line-hold-28-voyages-panama-canal>.

<sup>187</sup> “Amador Causeway: Panama City’s Playground,” TripAdvisor, accessed February 21, 2014, [http://www.tripadvisor.com/Guide-g294480-i61827-Panama\\_City\\_Panama\\_Province.html](http://www.tripadvisor.com/Guide-g294480-i61827-Panama_City_Panama_Province.html).

<sup>188</sup> Randy Hilarski, “The Amador Causeway Panama,” Panama Simple, accessed February 21, 2014, <http://www.panamasimple.com/amador-causeway-panama/>.



Figure 7. Amador Causeway<sup>189</sup>

Other points of interest in Fort Amador are Figali Convention Center, built in 2003 with a capacity of 10,000; the brand new BioMuseo (Museum of Biodiversity), a large unique brightly colored building that has a much anticipated grand opening scheduled for May 2014 and features a two-story aquarium; and the Punta Culebra Nature Center, an initiative of the Smithsonian Tropical Research Institute that opened in 1996 and inhabits the smaller connected island of Culebra along the causeway<sup>190</sup> (see Figure 8).

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<sup>189</sup> Liz and Chris Chesney, "Come To Your Senses," *Sail Espiritu, Come To Espiritu: Life On Land. Living on Less. LOL.our Senses!*, July 31, 2012, [http://sailespiritu.blogspot.com/2012\\_07\\_01\\_archive.html](http://sailespiritu.blogspot.com/2012_07_01_archive.html); "Naos Harbour Island Mega Tourist-Residential Project," *Panama - The Visitor*, accessed February 28, 2014, [http://www.thevisitorpanama.com/New\\_Site/Visitor11-11/artcover\\_visitor.html](http://www.thevisitorpanama.com/New_Site/Visitor11-11/artcover_visitor.html).

<sup>190</sup> "Amador Causeway"; Mark Strauss, "Frank Gehry's BioMuseo, New Science Museum in Panama," *Smithsonian.com*, December 2012, <http://www.smithsonianmag.com/travel/frank-gehrys-biomuseo-new-science-museum-in-panama-132939892/>; "Punta Culebra - History," *Smithsonian Tropical Research Institute Panama*, accessed February 21, 2014, [http://www.stri.si.edu/english/visit\\_us/culebra/history.php](http://www.stri.si.edu/english/visit_us/culebra/history.php).



Figure 8. BioMuseo along the Amador Causeway<sup>191</sup>

In addition to stimulating tourism in the area, many luxury condominium hi-rises have been built by private investors in Fort Amador, which is an ideal location for residents and has amazing views. These condominiums, ranging from 1,400 to 3,100 square feet, have been sold for between US\$220,000 and US\$750,000 depending on the size and location.<sup>192</sup>

The resulting construction has become a concern for the local population and over the last several years there has been controversy. The Strategic Plan for the Tourism Development of Fort Amador called for an aesthetic design that would preserve the historical environmental ambiance of the former base and preserving some of the existing original structures on the islands. In 2011, the Spanish company C4T was awarded a new contract by Panama's Minister of Economy and Finance to provide an updated tourism development plan for Fort Amador, the second such contract for the firm, which presented the aforementioned proposal in 2010 for Fort Sherman on Panama's Caribbean

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<sup>191</sup> "Panama Biomuseo by Frank Gehry Ready For Grand Opening," *Designboom Architecture*, February 13, 2014, <http://www.designboom.com/architecture/panama-biomuseo-by-frank-gehry-ready-for-grand-opening-02-13-2014/>.

<sup>192</sup> "Amador Heights Building," Panama Realtor, accessed February 21, 2014, <http://www.panamarealtor.com/property/1889>.

coast.<sup>193</sup> On June 13, 2012, an online newspaper from Panama reported the concerns and objections about the government's new contract for the planning of private development on Fort Amador:

The philosophy of the Master Plan was to avoid the construction of expensive real estate projects on the bay, to maintain the attractive forested hillsides on the islands, to avoid the intensive use of the islands and to minimize automobile traffic by installing a trolley along the causeway. Such development would also avoid tall buildings and promote a horizontal design more oriented to pedestrian movement in order to maintain public access. It intended to maintain and use the historic fortifications and their structures. Moreover, it included low-impact hotels, the golf course and cruiser ports. In summary, the use of this national legacy would have been to make Fort Amador a tourist center for all of Panama and provided an environment for educational opportunities and recreation with ample vegetation, reflecting the country's historical and cultural heritage and promoting the domestic and international tourism market.<sup>194</sup>

The government's updated C4T proposal included plans for a new fairgrounds and convention center.<sup>195</sup> As recently as January 2014, Panama announced plans for widening the causeway to four lanes for driving, new sidewalks, bike lanes and sitting areas to accommodate more recreational use.<sup>196</sup>

## **6. Fort Clayton**

As briefly mentioned in the chapter III, Panama has implemented the City of Knowledge on the former U.S. military base known as Fort Clayton. The base was originally established as the headquarters for Commander, United States Army South. Centrally located between the Panama Canal and the downtown area, the City of Knowledge consists of 300 acres and more than 200 buildings "for the purpose of

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<sup>193</sup> "C4T Wins the Amador Tourism & Urbanization Strategic Planning Contract," C4T Tourism Business & Planning, accessed February 21, 2014, [http://www.c4tourism.com/c4tonline\\_detalle\\_en.php?noticia\\_id=65](http://www.c4tourism.com/c4tonline_detalle_en.php?noticia_id=65).

<sup>194</sup> "Civic Organizations' Communique about Amador's Development," *The Panama News*, June 13, 2012, [http://www.thepanamanews.com/pn/v\\_19/issue\\_06/opinion\\_09.html](http://www.thepanamanews.com/pn/v_19/issue_06/opinion_09.html).

<sup>195</sup> "C4T Wins the Amador Tourism," [http://www.thepanamanews.com/pn/v\\_19/issue\\_06/opinion\\_09.html](http://www.thepanamanews.com/pn/v_19/issue_06/opinion_09.html)

<sup>196</sup> Joey Bonura, "New Plans Announced For The Amador Causeway," *PTY Life*, January 14, 2014, <http://ptylife.com/new-plans-announced-for-the-amador-causeway/>.

business, academic, scientific, and humanistic collaboration”<sup>197</sup> (see Figure 10). The non-profit City of Knowledge Foundation was established in 1995 in an effort to plan for the turnover of Fort Clayton in late 1999. The goal “was to create a new cluster for research, knowledge exchange, innovation and sustainable development not only for the country, but for the region as well.”<sup>198</sup> In 1998, the Panamanian government officially established the City of Knowledge by means of Executive Order number 6, which assigned Fort Clayton’s land and infrastructure to the Foundation and prescribed how the organization would be executed and administered. The Labor Code was changed to allow employment of qualified foreign personnel with professional expertise in research, education and technical specialties for the affiliated organizations operating within the City of Knowledge. The Foundation sponsors universities, research centers, NGOs and international organizations. The City of Knowledge’s mission is “being an international platform for knowledge management to promote sustainable development and the competitive advantages of Panama.”<sup>199</sup>

In 2002, the International Center for Sustainable Development announced that its headquarters would be established in the City of Knowledge. The center would be “Latin America’s first-ever institute of information and training for sustainable development.” It would involve more than 40 organizations, to include the Tropical Agricultural Research and Higher Education Centre, the Inter-American Institute for Agricultural Cooperation, the United Nations Environment Program, and the United Nations Development Program. The center would “create databanks on sustainable development and offer high-level educational programs.”<sup>200</sup>

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<sup>197</sup> “About Us,” Ciudad del Saber Panama (City of Knowledge), accessed February 24, 2014, <http://ciudadelsaber.org/en/foundation>.

<sup>198</sup> Christina E. Thayer, “Connecting the Business and Development Dots in Panama,” *International Financial Law Review* (May 2013, n/a ). ProQuest Electronic Journal Database 1398539933.

<sup>199</sup> “About Us,” <http://ciudadelsaber.org/en/foundation>.

<sup>200</sup> Nfer Muoz- Tierramrica\*, “Environment: Panama Creates ‘Knowledge Centre’ at Former Base,” *Global Information Network*, August 30, 2002, <http://search.proquest.com/docview/457561419?accountid=12702> (accessed March 17, 2014).

Today, the City of Knowledge hosts six different work areas:

- **Communications and Information Technologies:** This area encompasses 64 companies, research center, and public and mixed projects with a focus on “innovation, a state-of-the-art technology component and highly qualified human teams.” Its performance areas are software development, telecommunications, electronics, multimedia, logistic applications, e-government developments, IT security, outsourcing and corporate solutions.
- **Biosciences:** In addition to the Smithsonian Tropical Research Institute and the Institute of Advanced Scientific Research and High Technology Service, this work area contains 30 other organizations dedicated to “biotechnology, medicine, and biosciences as applied to the environment, pharmacy, biochemistry and other disciplines.”
- **Environmental Management:** This area includes 37 organizations working on research for climate change, environmental monitoring, reforestation, power industry, or on clean development mechanism management.
- **Human Development:** Eighty-seven organizations fall into this work area, and offer programs for sustainable economic development, academic agendas, artistic creation and innovation. There are international organizations working on disaster prevention and NGOs specializing in the economic, social and cultural rights of peoples. There are several American universities operating campuses or offering courses in the City of Knowledge, such as Florida Institute of Technology, University of South Florida and Florida State University.
- **Business Management and Entrepreneurship:** This work area of 35 organizations, most overlapping other work areas, is designed to support and empower both entrepreneurs who have business ideas and companies that have the potential for greater competitiveness
- **Global Services:** Only nine organizations are members of this work area, most working on issues of economic, environmental, socio-cultural and political development of the countries of Latin America and the Caribbean.<sup>201</sup>

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<sup>201</sup> “About Us,” <http://ciudaddelsaber.org/en/foundation>.



Figure 9. City of Knowledge at former U.S. military base Fort Clayton<sup>202</sup>

## 7. Albrook Air Force Base

Albrook Air Base became active as an independent U.S. Air Force installation in 1924, as the need for an air station on the Atlantic side of the Panama Canal became apparent. It was home to a variety of Air Force units, such as U.S. Air Forces Southern Command until 1976, and later major Air Force divisions, and the Inter-American Air Forces Academy. In 1975, Albrook Air Base was downgraded to an Air Force Station as some units were moved to Howard Air Force base. The station officially reverted to Panamanian ownership in October 1997.<sup>203</sup>

Throughout the 2000s, Albrook has been incorporated into the Panamanian landscape in a variety of ways. Much of the base housing has been renovated into exclusive upscale neighborhoods and sold to private individuals. Many new shopping centers, grocery stores, and banks have been erected in support of residential areas. One real estate website characterizes Albrook as having “some of Panama’s most beautiful

<sup>202</sup> “Location - Balboa Inn Bed and Breakfast,” The Balboa Inn - Your Home in Panama, accessed February 28, 2014, <http://www.thebalboainn.com/location>.

<sup>203</sup> Ormsbee, “Bases-Summary.”

suburban homes. It features various parks and green areas, beautiful tropical gardens, and several schools.”<sup>204</sup> The former Air Force airfield runway and buildings have been reutilized as Marcos A. Gelabert International Airport, with associated aviation support services, such as fueling and maintenance facilities housed in existing base hangars. The airfield primarily services the domestic carrier, Air Panama, for in-country and regional flights, but also has a section for privately owned small aircraft. The most notable changes to Albrook are the new construction projects of the Albrook Mall and the adjacent National Transport Terminal, which is the main nexus for the national bus service and also supports an end destination for the new Panama City subway system.<sup>205</sup>

The Albrook Mall is the largest shopping mall in Central America (see Figure 10). It opened in December 2002 with an initial investment of \$100 million dollars and is now complete. It encompasses almost five million square feet with 400 stores, includes 5,000 parking spaces, and is expected to create approximately 8,000 permanent jobs for the Panamanian people. The second, third and fourth phases of the mall were completed in 2004, 2006, and 2009, respectively. In 2011, Grupo Los Pueblos began construction of the fifth and final phase bringing the mall to completion by 2013.<sup>206</sup> As one observer has noted, even before the completion of the fifth and final phase of construction:

Albrook Mall has roughly the same number of employees as the Panama Canal. It takes 5,592 steps to walk Albrook Mall; roughly equal to going up and down the Empire State Building twice plus a few more New York

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<sup>204</sup> “Albrook,” *Panama Realtor*, accessed February 27, 2014, <http://www.panamarealtor.com/locations/28/albrook>.

<sup>205</sup> “Albrook Today,” WHO’s Scroll, accessed February 26, 2014, [http://members.tripod.com/william\\_h\\_ormsbee/alb\\_pan\\_p02.htm](http://members.tripod.com/william_h_ormsbee/alb_pan_p02.htm).

<sup>206</sup> “Mayor Alfredo Aleman Anuncio Inicio de Construcción de Albrook Mall,” Grupo Los Pueblos, October 10, 2002, <http://www.glp.com.pa/en/mayor-alfredo-aleman-anuncio-inicio-de-construccion-de-albrook-mall/>; “Grupo Los Pueblos Completo Segunda Fase de Expansión de Centro Comercial Albrook Mall,” Grupo Los Pueblos, February 9, 2004; “Mayor Alfredo Aleman Confirmando Tercera Fase de Albrook Mall,” Grupo Los Pueblos, February 23, 2006, <http://www.glp.com.pa/en/mayor-alfredo-aleman-confirmando-tercera-fase-de-albrook-mall/>; “Mayor Alfredo Aleman Anuncio Cuarta Etapa de Albrook Mall Con Tiendas Exclusivas,” Grupo Los Pueblos, April 3, 2009, <http://www.glp.com.pa/en/mayor-alfredo-aleman-anuncio-cuarta-etapa-de-albrook-mall-con-tiendas-exclusivas/>.



City blocks. Within the total area of Albrook Mall you could build 36 football fields or five Sidney Opera Houses.<sup>207</sup>

The hotel TRYP by Wyndham opened in August 2013 and is attached directly to the mall with its own entrance. It is the first of four hotels that were planned to be built next to the mall to provide a variety of options for travelers arriving by bus at the Transport Terminal and other visitors, beginning with the Ramada Inn with a spa.<sup>208</sup>



Figure 10. Albrook Mall at former U.S. military base Albrook Air Station<sup>209</sup>

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<sup>207</sup> Alex E. Hernandez, "La Quinta Etapa de Albrook," Prensa.com, August 23, 2010; Juan Carlos Martinez, "Albrook Mall Gets Even Bigger," Panama Online Quick Takes, accessed February 26, 2014, [http://www.panamaqmagazine.com/2011\\_May/Albrook%20Mall.html](http://www.panamaqmagazine.com/2011_May/Albrook%20Mall.html).

<sup>208</sup> Juan Carlos Martinez, "Albrook Mall Gets Even Bigger," "Central America's Largest TRYP by Wyndham Hotel Opens in Panama," Hospitality Net, August 6, 2013, <http://www.hospitalitynet.org/news/4061738.html>.

<sup>209</sup> "Albrook Mall," Panama City Travel Planner, accessed February 28, 2014, [http://www.travelplanner.com.pa/en/shopping/albrook\\_mall](http://www.travelplanner.com.pa/en/shopping/albrook_mall).

## **8. Howard Air Force Base and Fort Kobbe**

Howard Air Force and the adjacent Fort Kobbe are models of development for Panama's reverted areas. Similar to Fort Amador's tourist development, Fort Clayton's City of Knowledge and Semaphore Hill's Canopy Tower, the Howard Air Force base conversion to Panama Pacifico is an exceptional example of the thoughtful and innovative planning for what Panama desires to accomplish. Howard AFB and Fort Kobbe on the Pacific side of Panama were both originally the Bruja Point Military Reservation established in 1928–1929 for defense of the Panama Canal. The reservation was renamed Fort Kobbe in 1932 and the land bordering the Pacific ocean accommodated coastal artillery batteries and the Army's 193<sup>rd</sup> Infantry Brigade headquarters and one battalion. In 1939 the Bruja Point Air Base portion was renamed Howard Field, and later changed to Howard Air Base in 1962. The air base hosted numerous U.S. Air Force organizations to include WWII bombers, fighter attack aircraft and cargo planes through the 1990s. The base also hosted U.S. Navy maritime patrol aircraft and United States Drug Enforcement Agency air assets in the 1990s to support counterdrug efforts in Latin America. Howard Air Force Base and Fort Kobbe reverted to Panama in November 1999.<sup>210</sup>

In 2004, the Panamanian legislature passed Law No.41 creating the Agency of Special Economic Area Panama - Pacific which "acts independently and is responsible for the administration, promotion, development, regulation and proper use of the areas assigned to the Panama-Pacific region."<sup>211</sup> This was the first step in the planning and development of Panama Pacifico, encompassing 3,500 of the 5,000 acres of the former Howard and Kobbe military bases (Figure 11). The project began in 2007 and was described in 2011 by Georgia Tech Logistics and Innovation Research Center:

Panama Pacifico ...has become a new model of special economic zone aiming to become a hub for high-tech manufacturing, logistics services, commercial activities, and non-traditional services, with an eco-friendly residential area. A joint consortium between a government agency and a

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<sup>210</sup> Ormsbee, "Bases-Summary."

<sup>211</sup> "Panama Pacific Special Economic Area," APP - Panama Pacifico Area Agency, accessed February 26, 2014, <http://www.app.gob.pa/index.php?p=home>.

private developer develops an aggressive master plan that includes dedicated areas for warehousing and distribution centers, manufacturing, commercial offices, airport operations, and residential. An integrated system that gathers 11 government agencies facilitate the establishment of about 120 companies currently operating in the zone and providing a variety of goods and services to international customers.<sup>212</sup>

The Panama Pacifico Special Economic Zone was planned to attract multinational corporations by offering attractive benefits and incentives. In addition to precise business expansion, the ambitious project currently under phased development and construction are part of a master-planned community that includes a town center with dining, shopping and entertainment venues, as well as a mix of residential housing areas, schools and sporting complexes. Several U.S. companies, such as Dell computers, BASF, Caterpillar and 3M, were among the first to plant their flags at Panama Pacifico.<sup>213</sup> In 2013, reporting indicated that the 200-plus companies at Panama Pacifico were expected to create more than 12,000 jobs by 2014, surpassing the number of employees working at the Panama Canal.<sup>214</sup>

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<sup>212</sup> “Panama Pacifico,” Georgia Tech Logistics Innovation & Research Center Panama City, Panama, accessed February 26, 2014, <http://logistics.gatech.pa/en/assets/special-economic-zones/panama-pacifico/infrastructure>.

<sup>213</sup> “The New City You Always Dreamed Of,” Panama Pacifico, accessed February 26, 2014, <http://www.panamapacifico.com/english/>.

<sup>214</sup> Don Winner, “Panama Pacifico Creating More Jobs Than the Panama Canal,” Panama-Guide.com, January 14, 2013, <http://www.panama-guide.com/jobs/>.



Figure 11. Panama Pacifico at former U.S. military Howard Air Force Base<sup>215</sup>



Figure 12. Office building at Panama Pacifico<sup>216</sup>

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<sup>215</sup> "Panama Pacifico," <http://www.app.gob.pa/index.php?p=home>

<sup>216</sup> Ibid.





Figure 13. Pre-planned residential neighborhood at Panama Pacifico<sup>217</sup>

## 9. Rodman Naval Station

Rodman Naval Station situated just inside the Panama Canal on the Pacific side was transferred to Panama April 1999. It was the primary U.S. Naval base in Central and South America. It was built in 1943 and “provided fuel, provisions and other support to U.S. and allied military ships passing through the Panama Canal.” It was home to the only river operations school in the Navy. There were several small commands of Navy Special Warfare and small boat units that were based on Rodman as well.<sup>218</sup>

In the late 1990s, there was a plan for Panama to lease part of the former Navy base to a consortium of Mobil Oil Company and the Arabian Petroleum Supply Company for bunkering services and tank farm operations. But there is little evidence that the agreement either went into effect or was followed through.<sup>219</sup>

In 2007, a concession for the PSA Panama International Terminal (PPIT) project was awarded to PSA International, one of the world’s leading port terminal operators, owned by a Singaporean investment firm. In accordance with Panama’s requirements, the

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<sup>217</sup> “Residences - River Valley - Single-Family Residence 1,” Panama Pacifico, accessed February 28, 2014, <http://www.panamapacifico.com/rivervalley-single-family-1/>.

<sup>218</sup> Ormsbee, “Bases-Summary.”.

<sup>219</sup> David Beard, “Oil Storage Transfer Gives Panama An Economic Jolt,” *Sun Sentinel*, January 16, 1997, sec. Energy, [http://articles.sun-sentinel.com/1997-01-16/business/9701150438\\_1\\_canal-transfer-rodman-naval-station-panama-s-ability](http://articles.sun-sentinel.com/1997-01-16/business/9701150438_1_canal-transfer-rodman-naval-station-panama-s-ability); Ambassador Lino Gutierrez, *The Security of the Panama Canal: Hearing Before the Senate Armed Services Committee*, [http://1997-2001.state.gov/www/policy\\_remarks/1999/991022\\_gutierrez\\_panama.html](http://1997-2001.state.gov/www/policy_remarks/1999/991022_gutierrez_panama.html).

project consisted of the constructing of a 35-acre container yard, as well as a roll-on-roll-off (RO-RO) berth able to handle 450,000 TEU of containers a year.<sup>220</sup> The port terminal opened in December 2010 specifically to import supplies for the Panama Canal expansion, a project that will be discussed in the next section of this chapter. Cargo container operations then officially began in 2012 with the port handling a little over 53,000 TEUs for that year. The new berth can accommodate Post-Panamax<sup>221</sup> cargo ships, which can carry up to 13,000+ TEUs at once.<sup>222</sup> More recently, PPIT was leased of an additional 50 acres of land by Panama to expand the installation and build two more berths for Post-Panamax ships.<sup>223</sup>

## **C. PANAMA CANAL SINCE 2000**

### **1. Panama Canal Authority**

The Panama Canal is 50 miles long “from the deep waters of the Atlantic to the deep waters of the Pacific.”<sup>224</sup> It takes an average of 8 to 10 hours to complete a transit. The canal consists of a channel, an artificially created lake, and a series of locks that raise and lower ships (Figure 14). Vessels must be lifted in altitude to transit Gatun Lake, which is 85 feet above sea level, and then lowered back to the sea levels of the Atlantic or Pacific Oceans. There are currently three sets of locks in the Panama Canal: the Miraflores Locks, the Pedro Miguel Locks, and the Gatun Locks. Ships in the 110 feet wide by 1,000 feet long locks are elevated and lowered by changing the amount of water

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<sup>220</sup> TEU is the international unit abbreviation for Twenty Foot (20') Equivalent Unit in the shipping industry.

<sup>221</sup> Panamax ships are the mid-sized cargo ships that are capable of passing through the lock chambers of the Panama Canal which are 1,050 ft. in length, 110 ft. in width, and 41.2 ft. in depth. Post Panamax ships, also called New Panamax ships, are built to the larger specifications of the Panama Canal expansion locks; “Panamax and New Panamax,” Maritime Connector, accessed February 26, 2014, <http://maritime-connector.com/wiki/panamax/>.

<sup>222</sup> “Port Strategy - Godfathers of Ports,” Port Strategy, July 1, 2007, [http://www.portstrategy.com/news101/port-operations/port-performance/godfathers\\_of\\_ports](http://www.portstrategy.com/news101/port-operations/port-performance/godfathers_of_ports); “PSA Panama International Terminal,” Georgia Tech Logistics Innovation & Research Center Panama City, Panama, accessed February 26, 2014, <http://logistics.gatech.pa/en/assets/seaports/psa-panama-international-terminal>.

<sup>223</sup> Michele Labrut, “PSA Panama Terminal Gets Land for Expansion,” Seatrade Global, August 12, 2013, <http://www.seatrade-global.com/news/americas/psa-panama-terminal-gets-land-for-expansion.html>.

<sup>224</sup> “Frequently Asked Questions,” Canal de Panama - Official Website, accessed February 26, 2014, <http://www.pancanal.com/eng/general/canal-faqs/index.html>.

inside each chamber (Figure 15). Every lock gate is 65 feet wide by 7 feet thick, but their height varies from 47 to 82 feet, depending on their location and effects of the nearest tide.<sup>225</sup>

To fill a chamber, the lower lock valves are closed and the upper valves are opened. The water comes from Gatun Lake through long ducts, and enters the chamber through 20 holes in the chamber floor. To release the water from the locks, the upper valves are closed, and the lower valves are opened...101,000 cubic meters of water are needed to fill a Panama Canal lock chamber. An average of 52 million gallons of fresh water are used in each transit...All water used in any lock chamber comes from Gatun Lake. This lake covers 163.38 square miles and was created when Gatun Dam was built. At one time, Gatun Lake was the largest artificial lake in the world.<sup>226</sup>

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<sup>225</sup> Ibid.

<sup>226</sup> Ibid.

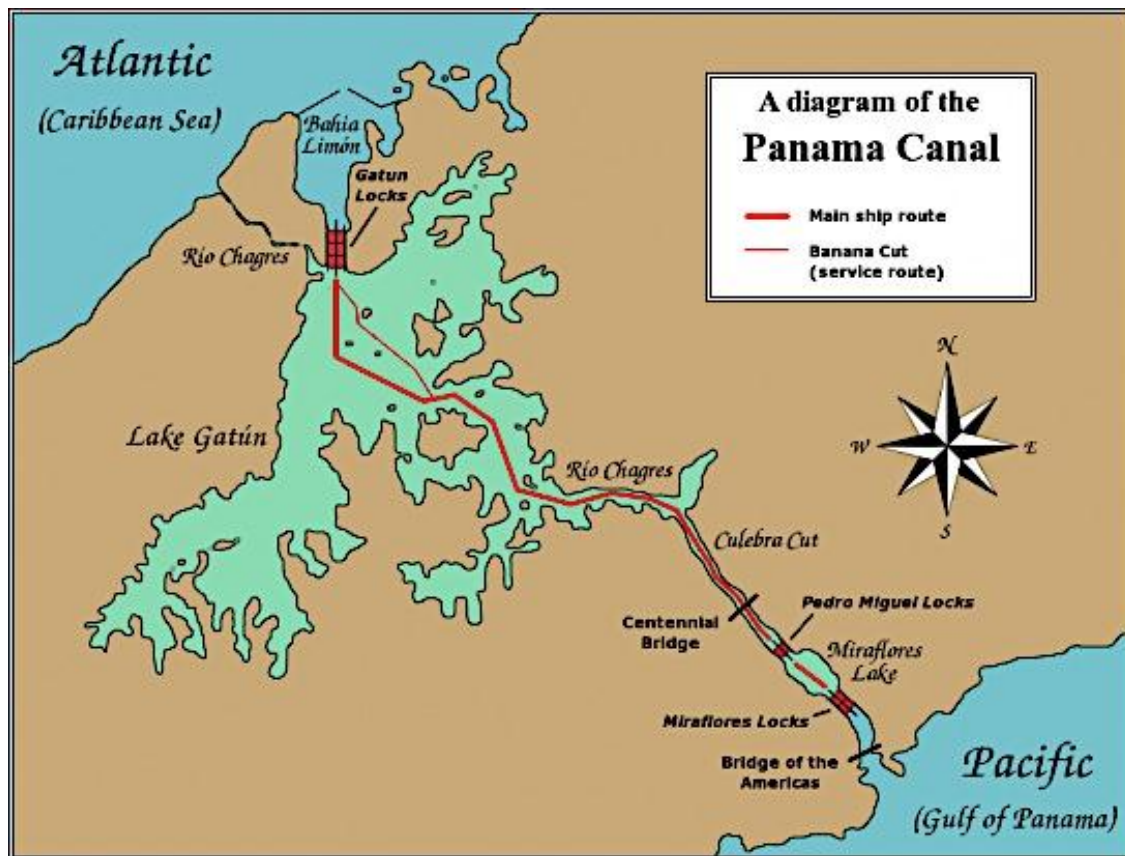


Figure 14. Diagram of Panama Canal<sup>227</sup>

<sup>227</sup> "Panama Canal Rough Diagram," Wikimedia Commons, accessed February 26, 2014, [http://commons.wikimedia.org/wiki/File:Panama\\_Canal\\_Rough\\_Diagram.png](http://commons.wikimedia.org/wiki/File:Panama_Canal_Rough_Diagram.png).





Figure 15. Panama Canal locks<sup>228</sup>

The United States handed a well-conditioned and well-functioning canal over to Panama. All the Panama Canal Authority had to do was continue Maintaining and operating the Canal to existing standards. And that's what they have done, to the tune of \$1.6 billion invested in improvements of the Panama Canal.<sup>229</sup> Since taking over, the Panamanians have been successful in their goal to run the canal as a profit making entity, and provide revenue to state coffers as originally planned. From 2000 through 2013, the Panama Canal contributed \$8.6 billion dollars to the state. The tolls for the canal prior to 2000 were based on the weight of the vessel and set to cover the costs of the canal.<sup>230</sup> The ACP changed the pricing structure of tolls by charging different prices according to

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<sup>228</sup> "Discover Panama: A Family Adventure," Smithsonian Journeys, accessed February 26, 2014, <https://www.smithsonianjourneys.org/tours/panama-family?display=itinerary>.

<sup>229</sup> Alberto Aleman Zubieta, "Panama's Promise: Canal Expansion and Its Impact on Trade (Transcript)," CSIS - Center for Strategic & International Studies, May 10, 2011, <http://csis.org/event/panamas-promise-canal-expansion-and-its-impact-trade>.

<sup>230</sup> The volume of cargo transiting the Canal is measured in PCUMS tons, an acronym for Panama Canal Universal Measurement System. The PCUMS ton is the unit used at the Canal to establish tolls, and measures vessels volumetric cargo capacity. A PCUMS ton is equivalent to approximately 100 cubic feet of cargo space, and a 20-foot long container is equivalent to approximately 13 PCUMS tons; *Proposal for the Expansion of the Panama Canal: Third Set of Locks Project*, 12, <http://www.pancanal.com/eng/plan/documentos/propuesta/acp-expansion-proposal.pdf>.

the type of cargo. It also charged for additional and special services, such as extra tugs, deckhands and expedited transit via jumping the queue of ships waiting to transit.<sup>231</sup>

The most important users of the Canal in recent years, in financial terms, have been container ships. In 2010, 5.6 million containers were carried through the Panama Canal, compared to just 200,000 in 1995, much if it from growing trade between East Asia and the east coast of the United States.<sup>232</sup> The ACP has also been able to charge higher tolls due to improved service, decreased transit times, and reliability, which shipping companies have come to expect and for which they are willing to pay more.

As established by Organic Law No. 19 of June 11, 1997 “Whereby the Panama Canal Authority is Organized,” and shown in Table 5, the canal has continued to contribute to the National Treasury of Panama.<sup>233</sup> Even when the nation made the decision to expand the Panama Canal, which will be discussed shortly, the ACP has provided between 1 and 4 percent of the nation’s GDP, which may not seem like a lot, but is significant for a single state enterprise.

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<sup>231</sup> “Frequently Asked Questions”; “A Plan to Unlock Prosperity,” *The Economist*, December 3, 2009, <http://www.economist.com/node/15014282>.

<sup>232</sup> Zubieta, “Panama’s Promise: Canal Expansion and Its Impact on Trade (Transcript).”

<sup>233</sup> The total direct payment to the National Treasury consists of three components: \$0.75 per PC/UMS in concept of fee per net ton, a payment for public services, and a payment of the Canal operational surplus after the required reserves; *Proposal for the Expansion of the Panama Canal: Third Set of Locks Project*, 1.

Year	Direct Contribution (in Millions)	GDP (in Billions)	% of GDP
2000	201.0	11,620,500	1.73
2001	215.2	11,897,500	1.81
2002	270.6	12,272,400	2.20
2003	293.5	12,933,200	2.27
2004	386.2	14,179,300	2.72
2005	488.8	15,464,700	3.16
2006	569.7	17,137,000	3.32
2007	847.0	19,793,700	4.28
2008	700.8	23,001,600	3.05
2009	780.4	24,162,900	3.23
2010	814.7	26,589,600	3.06
2011	1,043.2	31,315,800	3.33
2012	1,018.0	36,252,500	2.81
2013	982.0	Not Available	
<b>TOTAL</b>	<b>8,611.1</b>		

Table 5. Panama Canal contributions to the National Treasury of Panama

The Panamanians made it their mission to depoliticize the canal in order to maximize its future potential, and to protect the canal from political corruption. Throughout the 1990s the Panamanian voters insisted on the inviolability of the canal. As Noel Maurer has observed, any “credible accusations of interference in the management of the canal soon became the electoral kiss of death for Panamanian politicians.”<sup>234</sup>

The ACP continued to improve the canal and itself as an organization throughout the 2000s. In 2003, the ACP opened the Miraflores Visitor Center, where visitors can watch as ships transit the Panama Canal and get a firsthand view of lock operations. The

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<sup>234</sup> Sarah Jane Gilbert, “Panama Canal: Troubled History, Astounding Turnaround,” Harvard Business School Working Knowledge, December 20, 2010, <http://hbswk.hbs.edu/item/6402.html>.

Visitor's Center also hosts a museum and theater, where Panamanian schoolchildren are brought to learn about the history of the Panama Canal. The ACP's commitment to the environment is encapsulated in its water conservation program for the Canal Watershed, its wildlife rescue and relocation of disrupted species, as well as its reforestation efforts. As in the prior decade, the ACP has continued its capital investment for canal equipment, maintenance and operations and has deepened and widened the channel as needed, ensuring ease and safety of navigation for transiting ships. Additionally, the Panama Canal has consistently provided jobs for a workforce of between 8,000 and 10,000, with employees from almost every province of Panama.<sup>235</sup>

The Panamanians considered their first 10 years of running the canal a great success, and they began to plan for a continuation of that success when they decided to expand the canal, which is the subject of the next section. As Noel Maurer said, "If the Panama Canal declines in the future, it will be because of shifts in the global economy or, more likely, shifts in global geography: for example, the opening of the Northwest Passage as a result of climate change."<sup>236</sup>

## **2. The Panama Canal Expansion**

In the early 2000s, the Panama Canal Authority realized the canal would be running at capacity by 2011, and would gradually cease to be competitive once the major shipping companies increased their use of Post-Panamax ships.<sup>237</sup> When Alberto Aleman Zubieta took over as Director of the Panama Canal Authority in 2000, he ordered numerous studies to be conducted about the feasibility of expanding the Panama Canal. He made sure every stakeholder in Panama from the unions to the Indians, in every province, was consulted, educated and onboard with the idea. He wanted to make sure

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<sup>235</sup> *2005 Annual Report*, 14, <http://www.pancanal.com/common/general/reports/informe-anual-2005.pdf>; *2010 Annual Report*, 35,41, <http://www.pancanal.com/eng/general/reporte-anual/2010/pdf/LIBROing.pdf>.

<sup>236</sup> Gilbert, "Panama Canal."

<sup>237</sup> The original canal and locks opened in 1914 and can accommodate what are call Panamax ships, because they were the largest ships that could fit through the Panama Canal. The new locks and deeper channel are being built for Post-Panamax ships up to 1200 feet long and 160 feet wide.

that the people of Panama knew what was in it for them. The expansion offered the promise of a better life because the Panama Canal would be a catalyst for economic prosperity.<sup>238</sup>

In April 2006, the ACP recommended to the Panamanian government that a new channel and larger locks, 60% wider and 40% longer, be added to effectively double the capacity of the Panama Canal. Along with widening and deepening the existing channel and elevating the maximum operating level of Gatun Lake, the entire expansion project was estimated to cost \$5.25 billion, and take seven years to complete. The government put the proposal to a national referendum and the Panamanians overwhelmingly voted to support the canal expansion. Of the overall costs, \$3 billion of the project was to be self-financed by the ACP through toll revenues, with the remainder financed through lenders, and scheduled to be paid off within 10 years.<sup>239</sup>

According to the ACP, the overall objectives of the canal expansion are:

(1) Achieve long-term sustainability and growth for the Canal's contributions to Panamanian society through payments it makes to the National Treasury; (2) maintain the Canal's competitiveness as well as the value added by Panama's maritime route to the national economy; (3) increase the Canal's capacity to capture the growing tonnage demand with appropriate level of service for each market segment; and (4) make the Canal more productive, safe, and efficient.<sup>240</sup>

Although the Panama Canal expansion was delayed early in the process due to a mistake in the concrete mix used to pour the new locks, the ACP expects to be able to triple its inputs to the National Treasury when the new locks go into operation in 2015. The enterprise might even increase its contribution "eightfold, to over \$4 billion, by 2025," assuming the government does not fall into the same trap as oil-producing states, who use rents from a single dominant industry to subsidize the rest of their economies.

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<sup>238</sup> Zubieta, "Panama's Promise: Canal Expansion and Its Impact on Trade (Transcript)."

<sup>239</sup> *Proposal for the Expansion of the Panama Canal: Third Set of Locks Project*, 4–11; "A Plan to Unlock Prosperity."

<sup>240</sup> *Proposal for the Expansion of the Panama Canal*, 1–2.

The ACP estimates that with future GDP growth, the 30% of poverty-stricken Panamanians can be lifted up and standards of living for everyone can be improved.<sup>241</sup>

The expansion project officially began in September 2007. The majority of the undertaking is dredging the existing canal and excavating a new access channel to the larger locks. In July 2009, a contract for the most important part of the project, the design and construction of the locks, was awarded to the consortium *Grupo Unidos por el Canal* for its bid of \$3.16 billion dollars. Joining Spanish construction company Sacyr Vallehermoso as the leader of the consortium, are Italian, Belgian and Panamanian companies, as well as two U.S. subcontractors. A separate consortium of Spanish, Mexican and Costa Rican companies was awarded the excavation contract for the project.<sup>242</sup>

Construction and installation of the new locks on the canal expansion is the most expensive and complicated part of the project. The new lock gates will be of the modern, rolling type, replacing the old-fashioned miter gates that are currently used. The rolling gates “work from an attached recess that is perpendicular to the lock chamber” and will save costs in the long run because “this configuration turns each recess into a dry dock that, in turn, allows performing maintenance work on site without the need to remove them and without significant interruption in lock operations.”<sup>243</sup> (See Figure 16.)

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<sup>241</sup> “A Plan to Unlock Prosperity”; *Proposal for the Expansion of the Panama Canal: Third Set of Locks Project*, 12.

<sup>242</sup> Mark P. Sullivan, *Panama: Political and Economic Conditions and U.S. Relations*, CRS Report RL30981 (Washington, DC: Library of Congress, Congressional Research Service, November 27, 2012), 25, <https://www.fas.org/sgp/crs/row/RL30981.pdf>.

<sup>243</sup> *Proposal for the Expansion of the Panama Canal*, 45–46.

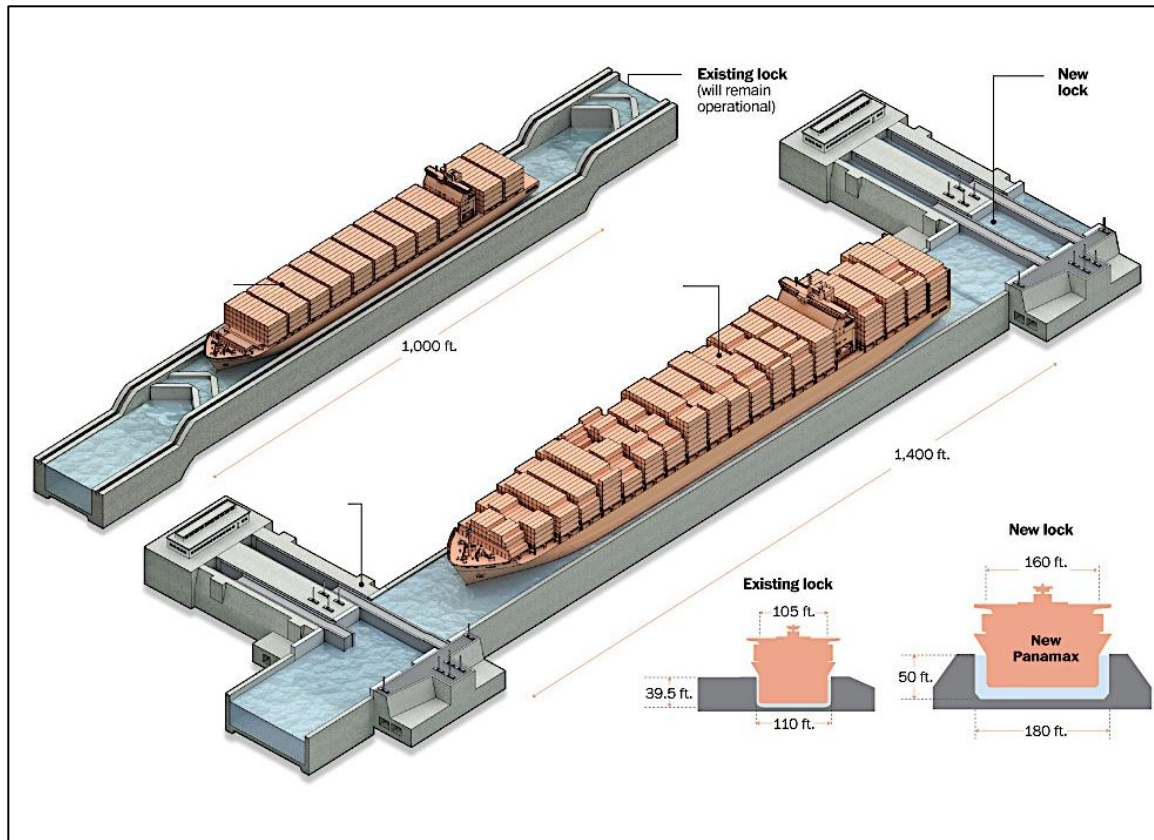


Figure 16. Comparison of lock systems<sup>244</sup>

At the beginning of the century, 85 percent of the world's container ships could still fit through the Panama Canal. Post-Panamax ships hit the market strong in the 1990s, however, and by 2007 only 57 percent could transit the canal.<sup>245</sup> In 2006, it was estimated that by 2011 the cargo capacity would almost double with a fleet of 667 vessels larger than Panamax. From 2006 through 2011, the number of Post-Panamax vessels increased by 64 percent, and the fleet cargo capacity increased 82 percent. Most of the increase would be due to construction orders for new ships in the larger categories of greater than 7,000 20-foot equivalent units (TEUs).<sup>246</sup>

<sup>244</sup> "Modernization of the Panama Canal," *Washington Post*, January 12, 2013, sec. The Americas, <http://www.washingtonpost.com/wp-srv/special/world/modernization-of-panama-canal/>.

<sup>245</sup> "A Plan to Unlock Prosperity."

<sup>246</sup> *Proposal for the Expansion of the Panama Canal: Third Set of Locks Project*, 30.

After extensive study, the ACP decided upon a lock size of 180 feet wide by 1400 feet long, which will accommodate ships up to 12,500 TEUs. The new locks will be able to handle most of the world's container vessels, along with supersize tankers and bulk carriers.<sup>247</sup> The full capacity of a Post-Panamax ship is approximately 13,000 TEUs. Once the Panama Canal expansion is concluded, a loaded Post-Panamax ship can carry almost the equivalent amount of TEUs in one transit that it used to take three vessels to carry at 4,500 TEUs apiece, providing a generous savings to the carrier.<sup>248</sup> (See Figure 17.)

Increased ship size has already impacted the decisions of the world's largest container-shipping company, Maersk Line. In March 2013, the company changed its route from Asia to the U.S. East Coast by going through the Suez Canal instead of the Panama Canal to accommodate its growing use of Post-Panamax ships. The Danish company has not indicated whether it will resume service through the Panama Canal once the expansion is complete, though Panama expects that it will, based on economics and competitive pricing.<sup>249</sup>

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<sup>247</sup> "A Plan to Unlock Prosperity."

<sup>248</sup> Jorge L. Quijano, "The Importance of the Panama Canal to Logistics and Trade," (presentation, BIMCO General Meeting on Trade, Paris, France May 27, 2013) [https://www.bimco.org/en/news/2013/06/~media/General\\_Meetings/GM2013/Presentations/Panama\\_Canal.ashx](https://www.bimco.org/en/news/2013/06/~media/General_Meetings/GM2013/Presentations/Panama_Canal.ashx).

<sup>249</sup> Mimi Whitefield, "GATÚN, Panama: New Locks for Panama Canal near Half-Way Point," *Miami Herald*, April 7, 2013, sec. Americas, <http://www.miamiherald.com/2013/04/07/3329175/new-locks-for-panama-canal-near.html>; Kyunghye Park, "Maersk Line to Dump Panama Canal for Suez as Ships Get Bigger," Bloomberg News, March 11, 2013, <http://www.bloomberg.com/news/2013-03-11/maersk-line-to-dump-panama-canal-for-suez-as-ships-get-bigger.html>.



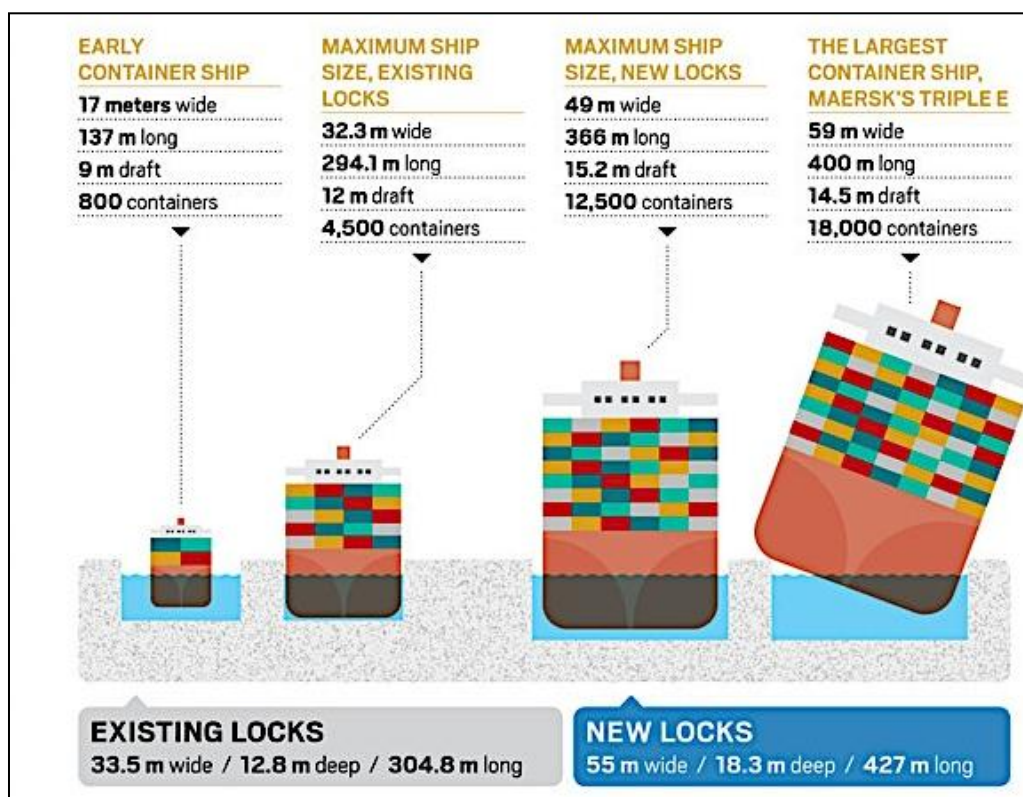


Figure 17. Ship-to-lock sizes<sup>250</sup>

While container ships constitute 50 percent of the canal's toll revenue, they represent only 30 percent of the total transits.<sup>251</sup> Other segments, such as automobile carriers (RO-RO) and dry bulk shipments are also expected to continue increasing well into the mid-2010s and benefit from the canal expansion. Some anticipated winners might include: shipments of Colombian coal and Venezuelan crude oil to China; United States imports of oil from Ecuador instead of Nigeria; U.S. grain and coal from the Midwest moved by barge to Louisiana and then shipped through the canal to Asia; and canal shipment of oil across Panama instead of trans loading to the trans-Panama oil pipeline.<sup>252</sup>

<sup>250</sup> Eric Sabo, "Panama's \$5 Billion Canal Upgrade Jolts U.S. Ports From California to New Jersey," *Bloomberg News*, January 30, 2014.

<sup>251</sup> Theodore Prince, "Panama Canal Expansion: Game Changer or more of the same?" *Supply Chain Quarterly*, Quarter 1, 2012, [www.supplychainquarterly.com/topics/Logistics/201201panama/](http://www.supplychainquarterly.com/topics/Logistics/201201panama/).

<sup>252</sup> Ibid.

Canal expansion is already having a major effect on American east coast ports that are readying themselves for more trade with China. Major ports in New York/New Jersey; Baltimore, Maryland; Norfolk, Virginia; Charleston, South Carolina; Savannah, Georgia; Jacksonville and Miami, Florida; and Houston, Texas are undergoing some type of port deepening and/or modernization to accommodate Post-Panamax ships and expected increases in cargo handling.<sup>253</sup> As explained in *The Economist*:

Shanghai to New York via the Panama Canal works out at roughly 25-26 days, compared with 27-28 days via Suez or 19-21 via Los Angeles and train. The route via the West Coast and overland costs about \$600 per container more than Panama, depending on a ship's operating costs, which are of the order of \$60,000 a day.<sup>254</sup>

Panama is the “gateway to Latin America and beyond.”<sup>255</sup> Included in its mid-term plans, Panama intends to provide incentives for the transshipment of goods for increasing flexibility of global trade routes. Due to its strategic center point between not only North and South America, but also between the East and West coasts of those continents, it makes sense for companies to use Panama as a transfer point to other modes of transportation, such as railway, or to small shipping vessels for onward movement. Another benefit of the Panama Canal expansion is the incentive for increased diversification of related activities that are profitable and bring value to customers in choosing a trade route. Panama is actively seeking ways to create new services and upgrade existing ones in the areas of container terminal, Ro-Ro terminal, vessel repairs, logistics parks services, bunkering, container barge services, fuel top-off operations and liquid natural gas terminal.<sup>256</sup> Finally, just the construction of the expansion has already bumped the Panamanian economy with the creation of 5000 jobs, and helped boost the nation's GDP from \$24.2 billion in 2009 to \$26.6 billion in 2010, and \$31.3 billion and \$36.2 billion in 2011 and 2012, respectively.<sup>257</sup>

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<sup>253</sup> Jorge L. Quijano, “The Importance of the Panama Canal To Logistics and Trade.”

<sup>254</sup> “A Plan to Unlock Prosperity.”

<sup>255</sup> Jorge L. Quijano, “The Importance of the Panama Canal To Logistics and Trade.”

<sup>256</sup> Ibid.

<sup>257</sup> “A Plan to Unlock Prosperity”; “Data - Panama,” The World Bank, accessed February 26, 2014, [http://data.worldbank.org/country/panama#cp\\_wdi](http://data.worldbank.org/country/panama#cp_wdi).

## **VI. ANALYSIS: PANAMA AS AN EMERGING ECONOMY**

### **A. INTRODUCTION**

Panama has made substantial progress in its plan to run the canal for a profit and has deftly reverted many former U.S. bases into thriving businesses, infrastructure, tourism or residential ventures. It is fair to say that Panama has seized the opportunity to begin transforming itself into an “emerging” economy, a concept that is discussed in more detail below. This is important because Panama has for many years desired the prosperity that is realized with further development. A growth economy enables other national qualities to improve, such as education and inequality. The nation has successfully grasped the Panama Canal to invest in itself for its future. Because of smart and very deliberate political and fiscal policies concerning the canal in the 1990s, Panama was able to start making a profit as soon as it gained sovereignty of the enterprise in 2000. The profit not only provided income for the nation, Panamanians also realized the canal’s stability can prove a stepping-stone toward further growth and economic diversification.

### **B. CHARACTERISTICS OF EMERGING ECONOMIES**

What constitutes an emerging economy? Business Dictionary.com provides the general definition of an emerging economy as, “Rapidly growing and volatile economies of certain Asian and Latin American countries. They promise huge potential for growth but also pose significant political, monetary, and social risks.”<sup>258</sup> Financial journalist Justin Kuepper agrees, “Emerging markets are broadly defined as nations in the process of rapid growth and industrialization.” Most international finance experts agree that emerging markets share some key characteristics, including nascent but recognizable economic diversification, a young and growing population, underdeveloped infrastructure, increasing foreign investment, lower-than-average per capita income, and

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<sup>258</sup> BusinessDictionary.com, s.v. “Emerging Economies - Definition and Meaning,” accessed February 22, 2014, <http://www.businessdictionary.com/definition/emerging-economies.html>.

rapid GDP growth.<sup>259</sup> In analyzing these characteristics as they pertain to Panama, a case can be made for the inclusion of Panama in any categorization of emerging markets.

## **1. Transitional Economy**

Emerging economies are often described as “transitional.” According to the International Monetary Fund, a transition economy is one that is moving from a centrally planned market to a free market.<sup>260</sup> Panama’s economy is a mix. The nation has long aspired to transform itself into the “Singapore of the Americas” as its political leaders like to say.<sup>261</sup> The Panamanian government has allocated investments into national infrastructure projects, such as the Panama Canal expansion and the new 8.7-mile Metro line that is scheduled to begin operations in early 2014. These centrally planned projects will incentivize and tie together free market activities that are associated with them. The subway will run from Panama City to the bus transport terminal at Albrook Mall creating a “convergence zone” with the combination of mall, metro, transport, lodging (hotel TRYP by Wyndham), and soon-to-be built casino. The hotels, casinos and stores inside the mall are free market activities associated with the government initiated mall, bus station and subway station.<sup>262</sup>

## **2. Young and Growing Population**

CIA World Factbook statistics indicate that Panama, like much of the developing world, has a demographic “youth bulge” with a median age of 28 years. In comparison with a developed country, such as the United States, there are relatively more working-

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<sup>259</sup> Justin Kuepper, “What Are Emerging Markets? Finding and Investing in Emerging Markets,” About.com, accessed February 22, 2014, <http://internationalinvest.about.com/od/gettingstarted/a/What-Are-Emerging-Markets.htm>; Kimberly Amadeo, “What Are Emerging Markets?,” About.com, accessed February 22, 2014, [http://useconomy.about.com/od/glossary/g/emerging\\_market.htm](http://useconomy.about.com/od/glossary/g/emerging_market.htm).

<sup>260</sup> “Transition Economies: An IMF Perspective on Progress and Prospects,” International Monetary Fund, November 3, 2000, <https://www.imf.org/external/np/exr/ib/2000/110300.htm>.

<sup>261</sup> Carl Delfeld, “The Singapore of Central America Is Booming,” *Investment U*, February 21, 2013, <http://www.investmentu.com/2013/February/the-singapore-of-central-america-is-booming.html>; Damian Aevor, “Adventure In Panama The Singapore of Americas,” *Modern Ghana*, November 15, 2013, <http://www.modernghana.com/news/503441/1/adventure-in-panama-the-singapore-of-americas.html>; “A Singapore for Central America?,” *The Economist*, July 14, 2011, <http://www.economist.com/node/18959000>.

<sup>262</sup> “Convergence Zone,” El Visitor/El Visitante, accessed March 4, 2014, <http://www.thevisitorpanama.com/2013/07/convergence-zone/>.

age and young people in Panama, and fewer elderly. This youth bulge is important for Panama’s growth plans. The positive effect of having a youthful population is that, with methodical planning for economic growth, as Panama has shown over the last decade, there should be ample labor to fill jobs created by increasing public and foreign investment, which will in turn be attracted by the favorable terms on which labor is available. The challenge is matching the education and skills requirements for relatively demanding, high-value projects. Panama has recognized this and incorporated improvements for education.<sup>263</sup> (See Table 6 and Figure 18.)

2013 CIA	% Pop
0-14 years	27.7
15-24 years	17.4
25-54 years	40.0
55-64 years	7.3
65 years and >	7.6

Table 6. Panama’s population by age groups<sup>264</sup>

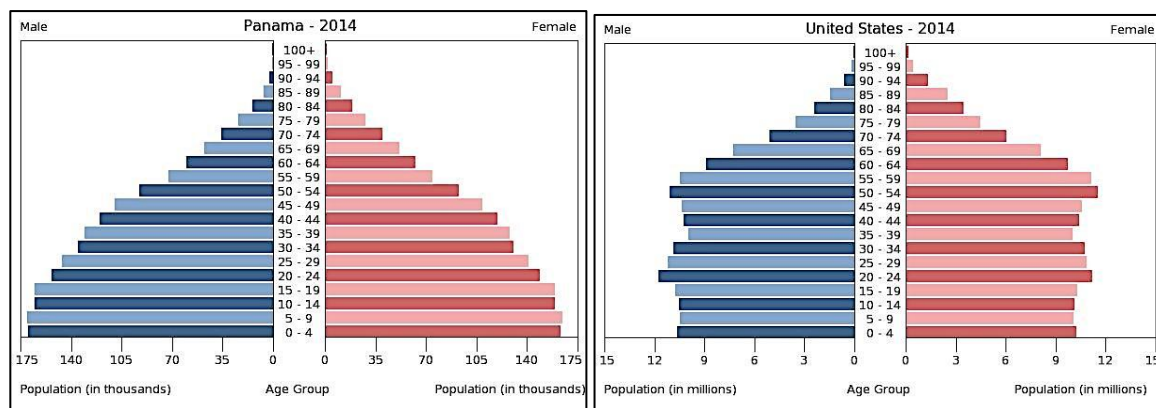


Figure 18. Population comparisons in 2014—Panama and United States<sup>265</sup>

<sup>263</sup> “Country Comparison: Population,” The CIA World Factbook, accessed February 21, 2014, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2119rank.html>.

<sup>264</sup> Ibid.

<sup>265</sup> Ibid.

World Bank Population statistics (Table 7) show that over last 10 years, Panama's population has grown steadily, but at a declining rate. The working age population (15–65 years old) has steadily increased every year, but so has the percentage of adults over age 65, as the percentage of people under the age of 15 has decreased. If this trend continues, the 2013 youth bulge may fade, so that Panama will no longer have enough work-eligible people to sustain labor-intensive economic growth. Panama's youth bulge thus represents a window of developmental opportunity that it must try to seize. Cheap and plentiful labor can be a diminishing resource, and Panama must make the most of it while it lasts.<sup>266</sup>

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population (Total)	3,240,805	3,303,335	3,365,929	3,428,509	3,491,034	3,553,480	3,615,846	3,678,128	3,740,282	3,802,281
Population ages 0-14 (% of total)	31.28	31.01	30.73	30.46	30.19	29.92	29.63	29.32	28.99	28.65
Population ages 15-64 (% of total)	62.87	63.03	63.19	63.33	63.47	63.61	63.75	63.92	64.09	64.28
Population ages 65 and above (% of total)	5.84	5.96	6.08	6.21	6.34	6.48	6.62	6.77	6.92	7.07
Population growth (annual %)	1.94	1.91	1.88	1.84	1.81	1.77	1.74	1.71	1.68	1.64

Table 7. Panama's population growth<sup>267</sup>

### 3. Underdeveloped Infrastructure

The Panama Canal expansion and the new subway are just two of a plethora of infrastructure upgrades that Panama proposes. In addition to opening a new subway, Panama plans for a new Enrique Malek International Airport in Chiriqui Province's main city, David, and the transformation of the Enrique Jimenez International Airport in Colon. Major highway investments are planned between Panama City and Colon in conjunction with the reverted area of Fort Sherman. Additional road extensions are planned from the interior rural towns, to allow for better participation in the Panama City labor market. For the agricultural sector, Panama proposes development of a Cold Chain logistics channel that ensures the viability of its perishable food production. Additionally, new irrigation systems are planned for the outlying provinces.

<sup>266</sup> "Data - Panama," The World Bank, accessed February 26, 2014, [http://data.worldbank.org/country/panama#cp\\_wdi](http://data.worldbank.org/country/panama#cp_wdi).

<sup>267</sup> Ibid.

Social infrastructure improvement is in the works as well. Five new hospitals are planned for the expansion of Panama's health care system. Upgrades to the nation's penitentiary system will increase security, which is seen as beneficial for tourism. A new Panama Convention and Exhibition Center will be built in Fort Amador. And finally, planning for the education sector consists of the new school construction across the nation and acquisition of advanced computer technology. Panama is ripe for infrastructure development and is making concerted efforts to plan accordingly.<sup>268</sup>

#### **4. Per Capita Income**

The MSCI Emerging Markets Index, a widely accepted standard in the financial industry, includes 21 countries on its list of emerging markets as of the end of 2013. These countries are Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.<sup>269</sup> Panama is a small country that is rarely included in data and trend comparisons outside of Latin America, but according to International Monetary Fund (IMF) and World Bank data, it already ranks right in the middle of this group in terms of its GDP (PPP) Per Capita (Table 8), on par with Mexico, and well above countries like China, Indonesia, and India, whose recent economic success has been widely recognized.<sup>270</sup>

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<sup>268</sup> "Infrastructure Investments: The Promise of Greater Growth Through Major Infrastructure Investments," Panama The Way, accessed March 4, 2014, <http://www.meetpanama.com.pa/meet-panama/infrastructure-investments.php>.

<sup>269</sup> "MSCI Emerging Markets Indices," MSCI, accessed February 22, 2014, [http://www.msci.com/products/indices/country\\_and\\_regional/em/](http://www.msci.com/products/indices/country_and_regional/em/).

<sup>270</sup> Ibid.

	IMF 2012		World Bank 2012	
	Rank	Int\$	Rank	Int\$
Taiwan	18	38,400	20*	39,400
Korea	26	31,950	30	30,801
Czech Republic	36	27,000	37	26,590
Greece	42	24,260	41	25,331
Poland	48	20,562	48	22,162
Hungary	51	19,497	49	22,119
Chile	52	18,211	47	22,352
Russia	58	17,518	45	23,501
Malaysia	59	16,794	57	17,143
Panama	65	15,449	59	16,615
Mexico	67	15,363	58	16,731
Turkey	68	14,812	54	18,348
Brazil	81	11,747	74	11,909
South Africa	83	11,281	77	11,440
Colombia	85	10,671	85	10,583
Peru	86	10,596	81	10,932
Thailand	92	9,503	87	9,820
China	93	9,055	92	9,233
Egypt	111	6,474	101	6,724
Indonesia	125	4,923	116	4,956
Philippines	130	4,380	122	4,410
India	133	3,843	127	3,876

Table 8. Country comparison GDP Per Capita (PPP)<sup>271</sup>

## 5. Increasing Foreign Investment

The elements of planned national infrastructure investment naturally extend to entice foreign direct investment (FDI) into an emerging market economy. A study of Panama's FDI Inflows as a percentage of GDP indicates there has been much foreign

<sup>271</sup> "World Economic Outlook Database 2012," International Monetary Fund, accessed March 5, 2014, <https://www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx>; "Data - GDP per Capita, PPP (Current International \$)," The World Bank, accessed March 5, 2014, <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>.



interest in Panama's development. This is not surprising. Representatives from the InterOceanic Region Authority shopped for investors in the mid-1990s, as discussed in Chapter IV. Opportunities were presented to investors from all over the world and Panama has chosen its contractors from many different nations, evidenced by the international consortiums commissioned for the Panama Canal expansion, the Fort Amador tourism plan, and the City of Knowledge. Relative to four other Latin American countries named by the MSCI Emerging Markets Index as emerging economies, only Chile rivals Panama for increasing FDI over the last 12 years (Table 9).<sup>272</sup>

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Panama	5.4	4.0	0.8	6.3	7.2	7.1	17.1	10.2	11.0	4.5	8.3	10.3	9.3
Brazil	5.1	4.1	3.3	1.8	2.7	1.8	1.8	3.3	3.1	1.9	2.5	2.9	3.4
Chile	6.1	5.8	3.6	5.5	7.1	5.6	4.7	7.2	8.4	7.5	7.1	9.1	11.2
Mexico	2.6	4.1	3.2	2.6	3.2	2.8	2.1	3.0	2.5	1.9	2.2	2.0	1.3
Peru	1.5	2.1	3.8	2.2	2.3	3.2	3.8	5.1	5.3	4.9	5.4	4.5	6.0

Table 9. Foreign direct investment inflows as percentage of GDP<sup>273</sup>

## 6. Rapid Growth

Another commonly agreed upon characteristic for emerging economies is increasing GDP growth per year. Panama's GDP has risen an average of 8 percent annually for the past five years, to \$36 billion in 2013. Bloomberg Markets ranked Panama sixth among emerging markets in investment outlook.<sup>274</sup> Strong growth and a sound financial sector have led to Panama's government bonds being granted an upgrade by Moody's, which increased its rating to Baa2, in 2010, meaning its debt is thought to pose only "moderate" risk to investors. Panama is now among the highest rated emerging markets, on par with Brazil, Mexico, and Peru.<sup>275</sup>

Table 10 compares Panama with all 21 MSCI emerging markets for GDP growth. Panama's growth over the past decade compares well with that of China, and it is one the

<sup>272</sup> "Data - Foreign Direct Investment, Net Inflows (% of GDP)," The World Bank, accessed March 5, 2014, <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?page=1>.

<sup>273</sup> Ibid.

<sup>274</sup> Sabo, "Panama's \$5 Billion Canal."

<sup>275</sup> Corrine Delechat and Svetlana Vtyurina, "Panama: Growth to Remain Buoyant," International Monetary Fund, March 28, 2013, <http://www.imf.org/external/pubs/ft/survey/so/2013/car032713a.htm>.

few countries to have maintained a positive growth rate in each of the last ten years. In fact, Panama's GDP growth, when averaged out over the indicated 10-year period, is the second highest out of all the countries after China. Panama can reasonably be described as having sustained and rapid growth.<sup>276</sup>

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	AVG
Brazil	1.1	5.7	3.2	4.0	6.1	5.2	-0.3	7.5	2.7	0.9	3.6
Chile	4.0	6.0	5.6	4.4	5.2	3.3	-1.0	5.8	5.9	5.6	4.5
China	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.3	7.8	10.5
Colombia	3.9	5.3	4.7	6.7	6.9	3.5	1.7	4.0	6.6	4.2	4.8
Czech Republic	3.8	4.7	6.8	7.0	5.7	3.1	-4.5	2.5	1.8	-1.0	3.0
Egypt	3.2	4.1	4.5	6.8	7.1	7.2	4.7	5.1	1.8	2.2	4.7
Greece	5.9	4.4	2.3	5.5	3.5	-0.2	-3.1	-4.9	-7.1	-6.4	-0.1
Hungary	3.9	4.8	4.0	3.9	0.1	0.9	-6.8	1.3	1.6	-1.7	1.2
India	7.9	7.9	9.3	9.3	9.8	3.9	8.5	10.5	6.3	3.2	7.7
Indonesia	4.8	5.0	5.7	5.5	6.3	6.0	4.6	6.2	6.5	6.2	5.7
Korea	2.8	4.6	4.0	5.2	5.1	2.3	0.3	6.3	3.7	2.0	3.6
Malaysia	5.8	6.8	5.3	5.6	6.3	4.8	-1.5	7.4	5.1	5.6	5.1
Mexico	1.4	4.3	3.0	5.0	3.1	1.4	-4.7	5.1	4.0	3.8	2.6
Panama	4.2	7.5	7.2	8.5	12.1	10.1	3.9	7.5	10.8	10.7	8.3
Peru	4.0	5.0	6.8	7.7	8.9	9.8	0.9	8.8	6.9	6.3	6.5
Philippines	5.0	6.7	4.8	5.2	6.6	4.2	1.1	7.6	3.6	6.8	5.2
Poland	3.9	5.3	3.6	6.2	6.8	5.1	1.6	4.1	4.5	1.8	4.3
Russia	7.3	7.2	6.4	8.2	8.5	5.2	-7.8	4.5	4.3	3.4	4.7
South Africa	2.9	4.6	5.3	5.6	5.5	3.6	-1.5	3.1	3.5	2.5	3.5
Taiwan	3.2	6.0	4.0	4.6	5.7	0.1	-1.9	10.8	4.1	1.3	3.8
Thailand	7.1	6.3	4.6	5.1	5.0	2.5	-2.3	7.8	0.1	6.5	4.3
Turkey	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.8	2.2	5.1

Table 10. MSCI emerging economies GDP growth % over time<sup>277</sup>

<sup>276</sup> "Data - GDP Growth (Annual %)," The World Bank, accessed March 5, 2014, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

<sup>277</sup> Ibid.

## **C. COMMISSION ON GROWTH AND DEVELOPMENT**

The Commission on Growth and Development provides another set of core characteristics by which to consider Panama's status as an emerging economy. The Growth Commission's report on Strategies for Sustained Growth and Inclusive Development offers a framework in which countries can create a growth strategy. The framework is based on the common characteristics of countries that have achieved sustained high growth for the majority of the past 25 years. Panama's exemplar for future growth has long been the nation of Singapore, which is frequently labeled as the "crossroads of the East." Panama and Singapore are similar in that they are both small nations and ideal locations for trade transshipment. Singapore is one of the countries the Growth Commission highlights as having long-term sustainable growth. It is Singapore that Panamanian officials have stated they wish to emulate in their own quest to be recognized as the "crossroads of the Americas." The Growth Commission lists five common characteristics of sustained high growth cases: exploitation of the world economy, macroeconomic stability, high rates of saving and investment, allowing markets to allocate resources, and committed, credible, and capable governments.<sup>278</sup>

### **1. Maximizing Connections to the World Economy**

The Commission assesses that growth countries have benefited from connection to the world economy through demand and knowledge. As a primarily service economy, Panama is involved in the world's complex shipping industry, and has invested in changes to take advantage of growing global demand for ship-borne trade. Panama capitalized on knowledge passed to it by the United States in learning how to operate and maintain the Panama Canal. Then they improved the processes, making the entire enterprise more efficient and profitable. Now the Panama Canal Authority devotes resources and training programs to the continuing education of its employees, and

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<sup>278</sup> Michael Spence, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Commission on Growth and Development, 2008), 21, [http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth\\_Commission\\_Final\\_Report.pdf](http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth_Commission_Final_Report.pdf).

supports canal management curriculums at state universities in order to ensure the viability of the future labor market.

## **2. Macroeconomic Stability**

There is evidence of macroeconomic stability in Panama. The International Monetary Fund asserts Panama's:

macroeconomic stability anchored by full dollarization has favored the expansion of domestic services and activities centered around the Panama Canal and the Colón Free Zone. A successful fiscal consolidation brought gross public debt from 66.2 percent of GDP in 2005 to 39.2 percent of GDP in 2012.”<sup>279</sup>

Similar to a fund created in Singapore, Panama has also created a Sovereign Wealth Fund to save excess revenue from the Panama Canal expansion, in order to mitigate against external shocks to the economy. The fund is to be used as a last resort during times of crisis or recession as well as “the management of budgetary deficits.”<sup>280</sup>

## **3. High Rates of Saving and Investment**

Panama's public investment in infrastructure, coupled with private investment of the reverted areas, demonstrates that Panama is willing to delay consumption to pursue future growth and higher levels of prosperity in the future. Panama invested nearly 30 percent of its GDP in 2012.<sup>281</sup> Statistics confirm that Singapore has consistently held over 40 percent as its gross savings as a percentage of its GDP for more than 20 years. Panama has shown its capability to increase its savings. Beginning in 2006, Panama clearly increased its national gross savings up to 36 percent of its GDP (Table 11). It then continued to increase over 40 percent in 2008 and 2009, before decreasing again in 2010.<sup>282</sup>

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<sup>279</sup> Corrine Delechat and Svetlana Vtyurina, “Panama: Growth to Remain Buoyant.”

<sup>280</sup> Carlos Cordero Galindo, “An Overview of Panama's Sovereign Wealth Fund,” IFLR 1000, accessed March 5, 2014.

<sup>281</sup> “Panama Economy Profile 2013,” Index Mundi, accessed March 5, 2014, [http://www.indexmundi.com/panama/economy\\_profile.html](http://www.indexmundi.com/panama/economy_profile.html).

<sup>282</sup> “Data - Gross Savings (% of GDP),” The World Bank, accessed March 5, 2014, <http://data.worldbank.org/indicator/NY.GNS.ICTR.ZS>.

	Panama	Singapore
2005	19	41
2006	36	46
2007	39	48
2008	44	44
2009	45	43
2010	33	48
2011	22	47
2012	27	46

Table 11. Gross savings as percent of GDP<sup>283</sup>

#### 4. Allowing Markets to Allocate Resources

Market receptiveness and decentralized decision-making are key traits of high-growth economies. Panama does not have the most decentralized economic management. According to the Heritage Foundation's 2013 Index of Economic Freedom, of which Panama ranked 71 freest in the index, slightly above average among the 178 rated countries:

The competitiveness of the economy is sustained by a continued high degree of openness to global commerce. Previous pro-growth reforms, including a simplified business start-up process and the reduced corporate tax rate, have enhanced the commercial environment and contributed to solid economic expansion over the past five years. The service-oriented economy continues to be a vibrant international business and banking hub.<sup>284</sup>

Panama has a variety of benefits that provide a competitive advantage. It has land available for development. It maintains a buffer around the Panama Canal for future enhancements, and there are still reverted areas whose economic potential has not yet been realized. All of the major shipping carriers have at least weekly services to or through the Panama Canal. The isthmus has generous sea-air connectivity for equipment parts. Major courier companies, such as DHL, UPS, FEDEX, Copa, and Avianca have

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<sup>283</sup> Ibid.

<sup>284</sup> Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2013), [http://www.heritage.org/index/pdf/2013/book/index\\_2013.pdf](http://www.heritage.org/index/pdf/2013/book/index_2013.pdf).

service to Panama. Legal and financial tax incentives are offered to multinational companies to establish their regional headquarters in Panama, and finally there is space to keep stockpiles from which companies can re-export.<sup>285</sup>

## **5. Committed, Credible, and Capable Governments**

Panama has a stable constitutional democracy and free and fair elections are held every five years.<sup>286</sup> As shown in Chapter IV, Panama published a National Vision for gaining prosperity from the Panama Canal and reverted properties. The government and the people of Panama have remained committed to that vision. It is evidenced in agencies created to foster depoliticization, such as the Panama Canal Authority, the Panama Pacifico Special Economic Area Agency, and the City of Knowledge Foundation. Panama's resolve is also revealed in legislation passed "that embrace and promote foreign investment."<sup>287</sup> Law 41 was passed to incentivize investment through "tax relief and immigration/labor benefits to international companies that choose to set up regional headquarters within Panama."<sup>288</sup> Recently, Panama passed Executive Law 343 to assist in overcoming a shortage of qualified worker for its growing industries. The law allows foreigners to obtain residency status more easily, in turn eventually easing the process for getting a work permit.<sup>289</sup>

In summary, from 2008 to 2012, Panama's average annual GDP growth of 9% was the highest in Latin America, while over the last decade GDP per capita has doubled.<sup>290</sup> Panama's growth accelerations of the past ten years may be transformed into

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<sup>285</sup> Jorge L. Quijano, "The Importance of the Panama Canal to Logistics and Trade" (Paris, France, May 27, 2013), [https://www.bimco.org/en/news/2013/06/~/\\_media/General\\_Meetings/GM2013/Presentations/Panama\\_Canal.ashx](https://www.bimco.org/en/news/2013/06/~/_media/General_Meetings/GM2013/Presentations/Panama_Canal.ashx).

<sup>286</sup> "The World Factbook - Panama," Central Intelligence Agency, accessed March 5, 2014, <https://www.cia.gov/library/publications/the-world-factbook/geos/pm.html>.

<sup>287</sup> Jeffrey Friedland, "Panama, Latin America's New Financial Center," *Panama: Big Emerging Economies*, June 9, 2013, <http://bigemergingeconomies.wordpress.com/category/panama/>.

<sup>288</sup> Ibid.

<sup>289</sup> Lief Simon, "New Executive Order in Panama Creates New Opportunity for Residency, Not Necessarily Employment," *Live and Invest News*, June 21, 2012.

<sup>290</sup> Oxford Analytica Daily Brief, "PANAMA: Economy to Maintain Fast Pace," *Oxford Analytica*, October 15, 2013, <https://www.oxan.com/display.aspx?ItemID=DB186440>.

sustainable high growth through rapid employment creation and structural diversification. Construction, commerce, transportation, storage and communications are strong dynamic sectors that are aided by Panama Canal traffic and expansion, as well as strong trade demand from South America and Asia.<sup>291</sup> It seems reasonable to conclude that Panama should be included as a recognized emerging economy.

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<sup>291</sup> “IMF Executive Board Concludes 2012 Article IV Consultation with Panama,” International Monetary Fund, March 13, 2013, <https://www.imf.org/external/np/sec/pn/2013/pn1328.htm>.

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## VII. CONCLUSION

Panama has done well since taking over the Panama Canal in 2000. Since the United States overthrew the dictatorship of Manuel Noriega, the material and psychological incentives that have followed the achievement of sovereignty over the canal have contributed to Panama's emergence as a stable democracy. The Panamanians have been able to turn the canal into a profitable enterprise and successfully plan for reverted Canal Zone lands through positive political decision-making, fiscally beneficial economic policies and constructive management techniques. Depolitization of the canal, coupled with knowledge gained by on-the-job training with the Panama Canal Commission from 1990–2000 allowed Panama to immediately gain revenue from the canal. The government created a vision for the former U.S. military bases and passed laws to incentivize foreign investment. The Panamanians voted to expand the Panama Canal to remain competitive in the global shipping industry. The government invested its own revenue into major infrastructure projects, creating jobs in the process. As a consequence of all of these decisions, Panama has achieved one of the highest GDP growths for developing and emerging economies over the last decade, despite a good deal of turmoil in the world economy as a whole.

In closing, a final thought about the Panamanian people should be considered. The forced alliance between Panama and the United States is what shaped the hopes and dreams of the Panamanians, and stimulated a sense of national identity that was strengthened as they fought for sovereignty over the canal. Nationalism is still strong today as the Panamanians strive to prove they can be successful without the United States. Panama is not afraid to dream big—and follow through! Their goal of being the “Singapore of the Americas” represents a considerable aspiration, but one to which they remain committed. They are not there yet. There are weaknesses to overcome, including poverty, corruption and crime. But Panama is on the right path and if it continues to follow through with its plans, it will succeed in becoming a model for development in Central America and the Caribbean. Panama is a testament to what a small nation can accomplish when left alone to flourish.

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